

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

SPYGLASS INC

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 1998
or

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

For the transition period from _____ to _____

Commission file number 0-26074

SPYGLASS, INC.

(Exact Name of Registrant as Specified in its Charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

37-1258139

(I.R.S. Employer
Identification No.)

1240 E. Diehl Road, 4th Floor, Naperville, IL 60563 (630) 505-1010
(Address of principal executive offices, zip code, registrant's
telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

\$0.01 par value Common Stock

(Title of Class)

Traded on the Nasdaq National Market

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the Common Stock held by non-affiliates

of the registrant on October 30, 1998, based upon the closing sale price of the Common Stock on the Nasdaq National Market on that date as reported in The Wall Street Journal, was approximately \$182,285,831

Registrant had 14,973,150 shares of Common Stock outstanding as of December 9, 1998.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's 1998 Annual Report to Stockholders for fiscal 1998 are incorporated by reference in Parts II and IV hereof. The Annual Report shall be deemed "filed" with the Commission only with respect to those portions specifically incorporated by reference herein. Portions of the registrant's definitive Proxy Statement for its Annual Meeting of Stockholders for fiscal 1998, which will be filed with the Securities and Exchange Commission within 120 days after the end of the Company's fiscal year, are incorporated by reference into Part III hereof.

PART I

Item 1. Business

General

Spyglass, Inc. ("Spyglass" or the "Company") was organized as an Illinois corporation in February 1990 and reincorporated in Delaware in May 1995. Spyglass entered the Internet market during fiscal 1994 and, from fiscal 1994 through fiscal 1996, focused its efforts on developing, marketing and distributing Internet client and server technologies for incorporation into a variety of Internet-based software products and services. Since fiscal 1997, the Company has been focusing on the development, marketing and distribution of its technologies and services to the non-PC Internet device marketplace. In February 1998, Spyglass reorganized its business to integrate its development, professional services and marketing resources. This change has allowed Spyglass to target its tailored solutions to the needs of the various vertical sectors within the Internet device market.

Spyglass provides its customers with expertise, software and professional services that enable them to rapidly develop cost-effective Internet-enabled devices. Spyglass professional services include custom engineering for defining, developing and delivering complete, end-to-end project solutions. Spyglass solutions have been integrated into a variety of products, including but not limited to televisions, office equipment, television set-top boxes, industrial controls, network computers and screen and cellular phones. In addition, several major corporations have deployed SurfWatch, a leading content filtering software designed to block unwanted material from the Internet.

On November 14, 1997, the Company acquired AllPen Software ("AllPen"). AllPen, located in Los Gatos, California, develops software solutions and technologies and provides professional services for the Internet device marketplace. These solutions have been successfully applied in television, screenphone, handheld PC, mobile and wireless products. This transaction was effected through the exchange of 639,246 shares of common stock of the Company for all of the issued and outstanding shares of AllPen. This transaction was accounted for under the pooling of interests method of accounting. Because the effect of this transaction on prior year financial statements was considered immaterial, such financial statements were not restated; instead, the Company's equity accounts were adjusted for the effect of the pooling.

In October 1998, General Instrument Corporation ("GI") acquired 700,000 shares of the Company's common stock for \$7,392,000 and also acquired warrants to purchase an additional 700,000 shares. The warrants have exercise prices ranging from \$13.20 to \$14.78 per share (subject to adjustment in certain circumstances), and become exercisable on varying dates over a five-year period. In connection with this investment, the Company and GI entered into a three-year agreement under which the Company will develop and integrate new Internet cable services and technologies for GI. This work will be performed through a newly-formed subsidiary of the Company, in which GI will hold a 10% minority interest and which GI will have an option to purchase at fair market value under certain circumstances.

A central element of the Company's business strategy is its use of an Original Equipment Manufacturing ("OEM") distribution network. The Company chose this approach to enable it to leverage the marketing, distribution and development resources of much larger organizations that are strategically focused on offering value-added products and services that leverage the Internet. The Company intends to continue to increase the performance, functionality and flexibility of its technology offerings and breadth of its services to meet the evolving needs of Internet users and to continue to invest in building customer awareness of the Spyglass name and the range of Internet solutions available from Spyglass.

The Company's future results of operations will be largely dependent upon a number of factors relating to development and acceptance of the Internet as a commercial market, particularly use of the Internet through non-PC devices, and the Company's ability to establish its solutions as widely-accepted in the market. See the "Future Operating Results" section incorporated by reference into Item 7 of this Annual Report on Form 10-K.

The Internet

The Internet is a worldwide network that links thousands of public

and private computer networks. The Internet began in 1969 as a project of the Advanced Research Projects Agency ("ARPA") of the U.S. Department of Defense to connect different types of computers across geographically disparate areas. The ARPA network was designed to allow any computer on the network to communicate with any other computer on the network through an open communications protocol known as TCP/IP.

The World Wide Web ("WWW") was introduced in 1992. The WWW is based on a client/server system in which certain computers ("servers") store files and respond to requests issued by remote computers ("clients") to download the files, thus allowing multiple, geographically dispersed users to view and use the information stored on a single server. The client must contain software, known as a browser, that can read Hyper Text Markup Language (HTML) documents and follow their hypertext links to retrieve and display linked documents from servers.

In order to support the continued growth and popularity of the Internet, certain "infrastructure" elements must expand to handle the resulting increases in Internet demand and traffic. These elements include widespread, inexpensive Internet access, either through Internet access providers or on-line services, and widely available high-speed communications channels to accommodate the increasing number and size of files available for downloading.

Products and Technologies

Spyglass products and technologies deliver the embedded Internet and infrastructure solutions needed to effectively connect a wide variety of devices to the Internet and leverage the wealth of on-line information and communication options. Spyglass products deliver benefits to a wide range of groups such as consumers, device manufacturers, content providers, internetworking vendors and Internet service providers (ISPs").

Spyglass' solutions provide its partners with a complete array of software and services necessary to make devices work with the Web. Spyglass solutions enable Web connectivity from virtually any device, while providing the infrastructure solutions needed to eliminate performance "bottlenecks" and deliver value-added services such as content filtering and conversion. And, critically important to the mass deployment of these new devices, these solutions ensure that these devices have access to evolving Web content without the need for changes in the original Web content or costly changes to the device's software.

Spyglass Embedded Internet Technologies

Spyglass Device Mosaic

Spyglass Device Mosaic is the embedded industry's first full-featured, thin browser. Occupying less than 1MB of code when

compiled specifically for devices, it supports the key Internet standards to deliver information to devices. Moreover, Device Mosaic's modular design makes it scalable across a broad range of devices. Features can be added to support the latest needs of televisions and set-top boxes or a stripped down version can be embedded in more memory-constrained screen phones and hand-held devices. To further reduce memory footprint, Device Mosaic comes bundled with its own graphics library, the Spyglass ThinGUI Library, which enables rich GUI (graphical user interface) functionality in less than 300KB of code. Easily ported to a variety of popular real-time operating systems, Device Mosaic enables consumer electronics manufacturers to add Web functionality to products quickly, cutting development costs and sharply reducing time to market.

Spyglass Device Mail

Spyglass Device Mail is an embedded email technology designed specifically for televisions, cellular phones, and handheld computers. Specifically designed and built for these products, Spyglass Device Mail requires very little memory and is designed to run on the embedded or real-time operating systems that are commonly used by consumer electronics and office equipment manufacturers. Spyglass Device Mail supports SMTP and IMAP4 Internet messaging standards, and optionally supports POP3. Spyglass Device Mail will work with any ISP, eliminating the need for a proprietary dial-up network.

Spyglass MicroServer

Spyglass MicroServer is a small footprint Web server that can be embedded in devices such as copiers, printers, industrial controls, and manufacturing equipment. It delivers standards-based Web server functionality in as little as 10KB of random access memory ("RAM"). Application user interfaces for Spyglass MicroServer enabled devices are authored in HTML and may be used with any commercial Web browser. Typical uses include providing operational or status information to a user, updating a device's internal database, or initiating a device action, such as running a diagnostic. Developed specifically for the embedded systems market, Spyglass MicroServer has been ported to many of the leading real-time operating systems.

Spyglass Mobile Forms Database

Spyglass Mobile Forms Database is a mobile database and forms data collection application for Windows CE handheld PCs (HPCs). Spyglass Mobile Forms Database works with the latest Windows CE devices including the Philips Velo, the HP 320LX, Casio's Cassiopeia, Compaq's PC Companion, LG's Phenom, and NEC's MobilePro. Spyglass Mobile Forms Database allows users to create powerful handheld databases that precisely fit their mobile data collection needs. The database exists on a handheld device for easy collection of important data while freeing users from their desktop. Exchanging data with a desktop is made easy with the import/export functionality.

Spyglass Infrastructure Technologies

Spyglass Prism

Spyglass Prism is a server-based content delivery platform designed to optimize the performance of the new generation of Web-enabled devices by dynamically converting existing Web content for optimal delivery and display on a wide variety of devices. Spyglass Prism dynamically translates richly formatted Web content such as tables, JPEG images, frames and Java applets into formats that match the relatively limited display capabilities of non-PC devices. For example, with a Personal Digital Assistant ("PDA"), Spyglass Prism converts memory and bandwidth intensive color images into a simpler, grayscale format and resizes those images for the PDA's smaller display. These conversions of graphic-laden content can reduce access times by as much as 90%. Performance is further enhanced by a feature that stores previously converted, frequently requested Web content. SurfWatch content filtering can also be added to Spyglass Prism, allowing users to block access to objectionable Web content.

Spyglass Remote Mosaic

Spyglass Remote Mosaic brings Web browsing capabilities to devices with extremely limited computing, RAM or display capacity. Such devices include PDAs, cellular phones, pagers, low-end set-top boxes and traditional television sets. By splitting the browser into two components -a lightweight viewer which resides in the device and a proxy browser that resides on a server -Spyglass Remote Mosaic can deliver Web-browsing functionality in as little as 50K of RAM on the device. This unique design reduces the amount of memory required on the device, and simplifies upgrades by putting most of the functionality on the server.

SurfWatch Technologies

SurfWatch Client Products

SurfWatch Client from Spyglass is an easy-to-use, effective software application for screening unwanted material from the Internet. SurfWatch Client versions include: SurfWatch for the Macintosh, SurfWatch for Windows 95 and SurfWatch for Windows 98.

SurfWatch Client blocks access to a comprehensive list of sites in any or all of five "core" categories pertaining to sexually explicit material, violence, hate speech, drugs/alcohol/tobacco, and gambling as well as allowing users to block all access to all chat.

SurfWatch Server Products

SurfWatch Server-based products plug into or act as an add-on to Microsoft and Netscape proxy servers and the Check Point FireWall-1. As described in the SurfWatch Client Products section above, the filtering technology included in the SurfWatch Server-based products

blocks the same unwanted, inappropriate material on computers connected to the network enabling centralized (easier) administration of the filtering solution throughout a school district or corporation. SurfWatch Server-based products include: SurfWatch Standard Edition, Surfwatch Educational Edition, SurfWatch Professional Edition, SurfWatch for Check Point FireWall-1 and SurfWatch SDK. All editions includes the ability to administer different levels of filtering to different people (so that individuals or groups can have varied levels of Web access), and further allows customization based on the time of day or the day of the week.

In addition to the above, the SurfWatch Educational Edition provides Secure Learning_ environments (or "white lists"). These inclusive lists of accessible Web content direct students to educational sites while steering them away from sexually explicit materials, violent content, hate speech, gambling sites and sites promoting drugs, alcohol or tobacco. The SurfWatch Professional Edition and SurfWatch for Check Point FireWall-1 add productivity categories to the already existing sites that are blocked. These categories include, but are not limited to, entertainment, games, job search, sports and travel. SurfWatch SDK enables software developers to embed SurfWatch filtering technology into their own hardware and/or software applications.

Marketing, Sales, and Distribution

The Company distributes its technologies through a distribution network of OEMs that includes device manufacturers, platform developers, infrastructure hardware providers, service providers and content developers that incorporate Internet technology into their products and services. Spyglass has adopted this distribution model to increase its presence in the marketplace, and to leverage the marketing, distribution and development resources of its customers. Certain products, such as the SurfWatch products, are also sold directly to end users via direct sales and telesales and through value-added resellers ("VARs") and distributors.

Since it shifted its direction to the non-PC marketplace, the Company has been focusing its marketing efforts on a variety of companies, including but not limited to real time operating system (RTOS) vendors, consumer and industrial device manufacturers, software developers, cable companies, Regional Bell Operating Companies (RBOC) and Internet Service Providers (ISP). Efforts include direct marketing campaigns, advertising campaigns and participating in the engineering and trade conferences and shows focused on these markets and industries. In addition, the Company is targeting public relations efforts at analysts, the trade press and other media relevant to the Internet device market.

The Company's license arrangements with its customers typically

provide for a non-exclusive license to incorporate Spyglass technology into the customer's products and services and distribute the Spyglass technology. These licenses generally provide for royalties based on the number of copies distributed and generally include up-front minimum royalty commitments.

The Company derived approximately 15% of its revenues for the fiscal year ended September 30, 1998 from Motorola Corporation and 39.5% of its revenues for the fiscal year ended September 30, 1997 from Microsoft Corporation. As the Internet device market develops, the Company expects to continue to derive a significant portion of its revenues from a relatively limited number of customers.

As of December 10, 1998, the Company had 8 employees in marketing and 15 in sales. The Company currently operates sales offices located in Cambridge, Massachusetts, San Ramon, California, Morristown, New Jersey, Marina del Rey, California, Berkshire, United Kingdom and Tokyo, Japan.

Professional Services Organization

The Spyglass Professional Services organization provides custom solutions and support for the Company's customers through its professional services and customer services groups. These custom solutions are essential to Spyglass' overall strategy.

Professional Services Group

The Professional Services group provides strategic Internet consulting, custom engineering, development, systems integration and project management services. These services are provided on a project basis to assist customers in developing unique products or services utilizing Spyglass technologies and other third party technologies. This group consists of senior consulting managers, experienced engineering developers, senior technologists and architects, technical writers and quality assurance specialists.

Customer Services Group

Most of the Company's customers enter into support agreements with the Company for annual fees based upon on the number of products licensed, platforms supported and copies distributed. These support agreements entitle the customer to the backup technical support described below as well as product updates and enhancements.

The Company tracks all support requests through a series of customer databases that maintain current status reports as well as historical logs of customer interaction. Support specialists diagnose and solve technical problems related not only to the Company's products, but also to other software and technologies with which the Company's products interact. In addition, support specialists provide the customer with direct access to the Company's development engineers and report customer and end-user feedback to the Company's development staff. Other types of support provided to the customer

include technical reports, documentation, status reports for product upgrades and updates, and support during Beta test and pre-release cycles.

As of December 10, 1998, the Company employed 29 employees in its Professional Services organization.

Product Development

An important factor in the Company's ability to deliver state-of-the-art solutions to its customers is the technology base the Company can leverage in the creation of customized solutions for its customers. The Company has a suite of embedded Internet and infrastructure solutions that it continues to develop in order to support the latest Internet technologies and standards. These core technologies form the basis for most of the Company's customer solutions.

The Company's primary development efforts are focused on embedded Internet technologies for HTML rendering and browsing and infrastructure technologies that enhance the performance and functionality of non-PC devices connected to the Internet.

In order to respond to rapidly changing competitive and technological conditions, the Company may seek to enhance or expand its product offerings by licensing one or more complementary technologies or products or acquiring one or more complementary companies.

Because many of the significant technologies incorporated in the Spyglass product suite are implementations of Internet standard protocols which are constantly evolving, the Company actively participates in a number of Internet standards-setting groups and technical conferences.

As of December 10, 1998, the Company's research and development staff, which is responsible for product development, quality assurance, technical communication and product coordination, consisted of 40 full-time employees. From time to time the Company employs independent contractors for software development, documentation, artistic design and quality reviews. For the fiscal years ended September 30, 1998, 1997 and 1996, research and development expenses were \$9,173,000, \$13,644,000 and \$6,801,000, respectively, which represented 45%, 64% and 30% of revenues, respectively.

Competition

The market for Internet technologies and services is extremely competitive, and competition is likely to increase in the future. The Company currently faces competition from other Internet device technology vendors and service providers such as Oracle, Sun Microsystems, Microsoft, on-line service companies, Internet access providers and networking software companies. Additionally, the Company considers a significant source of competition for its

Internet technologies and professional services to be the prospect company's internal resources.

Spyglass Device Mosaic competes with several companies who are providing lightweight Web browsers for the emerging Internet device marketplace. Spyglass competes with a number of small start-up companies in specific vertical markets. Spyglass also competes with Microsoft's Pocket Internet Explorer offering on WindowsCE, Network Computer, Inc. (an Oracle subsidiary), Planet Web and JavaSoft, which is attempting to adapt the Java environment to embedded devices. All of these companies are licensing their Web browser and other solutions to OEMs.

Spyglass Device Mail competes with several companies who are providing e-mail packages with their browsers such as Microsoft, PowerTV, NCI and a variety of smaller companies.

Spyglass MicroServer competes with other thin, embeddable Web server technologies, including those provided by 3Soft, Agranat, emWare, Integrated Systems, Inc. and Wind River Systems. The embedded server market is characterized by an abundance of small competitors and two RTOS developers. Many of the smaller competitors are offering their products at extremely competitive prices in an attempt to establish a market position. The RTOS developers have the advantage of being able to offer embedded Web server functionality along with their operating systems. The barriers to entry for the embedded Web server market are very low, as the amount of software required for a server is very small.

Spyglass Mobile Forms Database competes with other products such as Symantic's ACT and Syware's Visual CE.

At this time, the Company believes there are no other content conversion servers that are being offered to the OEM market that directly compete with Spyglass Prism.

Spyglass Remote Mosaic faces competition primarily from NCI's (a division of Oracle) DTV Navigator.

The Company also faces competition for its SurfWatch Client product from other companies who have filtering products, such as The Learning Company's Cyber Patrol and NetNanny's NetNanny. The greatest competition is in the home market, due to the low barrier to entry. The SurfWatch Server products face competition primarily from NetPartners' WebSENSE and The Learning Company's CyberPatrol.

In its professional services offerings, Spyglass competes with other technology consulting firms as well as other technology competitors and customers' in-house research and development staff.

Competition among the current and future suppliers of Internet

software and services could result in significant price competition. Moreover, many of the Company's current and potential competitors have significantly greater financial, technical, marketing and other resources than the Company. There can be no assurance that the Company will be able to compete successfully against current and future sources of competition or that the competitive pressures faced by the Company will not adversely affect the Company's revenues or gross margins.

Proprietary Rights

One of the Company's products, Spyglass Device Mosaic, is based in part on technology licensed to the Company under an agreement with the University of Illinois at Urbana-Champaign. This agreement grants the Company the exclusive (subject to previously granted licenses described below) worldwide right to develop, distribute and sublicense commercial derivative versions of NCSA Mosaic, the Web browser that was originally developed at the National Center for Supercomputing Applications on the University of Illinois campus. The University Agreement provides for royalties based on Spyglass' net revenues from Device Mosaic. This University Agreement is terminable in the event of a material breach by the Company of its obligations thereunder. The University informed the Company that, prior to appointing the Company as its exclusive licensing agent, the University granted certain rights with respect to NCSA Mosaic and the Mosaic trademark to approximately 10 organizations, some of which have developed and market WWW browsers based on NCSA Mosaic.

The University Agreement gives the Company the exclusive right (with certain limited exceptions) to use the University's trademarks "Mosaic" and "NCSA Mosaic" and its spinning globe logo in connection with Spyglass Mosaic products on a royalty-free basis (with certain limited exceptions). In addition, the Company has the exclusive right (with certain limited exceptions) to use these marks in connection with the sale of other products for a royalty payment based on net revenues derived from such products. The University has filed an application to register the "NCSA Mosaic" and "Mosaic" trademarks in the United States.

Spyglass has registered the name "SPYGLASS", the red "S" logo, the name "SURF-WATCH", and the tag line "MAKE THE NET WORK" in the United States. Spyglass has also received trademark registrations for the name "SPYGLASS" in a number of foreign jurisdictions. Spyglass has filed additional trademark applications in the United States and in foreign jurisdictions.

Spyglass relies upon patent, copyright, trade secret and confidentiality agreements and/or license agreements with its customers, employees and other third parties to protect its proprietary technology. However, effective intellectual property protections may not be available in every country in which Spyglass' products and services are provided. Spyglass has been issued and

continues to seek patent protection from the United States Patent and Trademark Office for its technologies. The University of Illinois does not have patent protection for NCSA Mosaic. There can be no assurance that the steps taken by Spyglass (or the University of Illinois) to protect their respective proprietary technologies will be adequate to prevent misappropriation thereof by a third party, or that a third party will not be able to independently develop similar technologies. In addition, there can be no assurance that other parties will not assert technology infringement claims against Spyglass.

The Company licenses technology from a number of vendors for incorporation into the Company's products. Examples of such licensed technologies include security products, image conversion products and databases. Specifically, the Company announced on September 13, 1995 an agreement with RSA Data Security, Inc. ("RSA") allowing the Company to bundle RSA-security products with its technology offerings. The agreement allows Spyglass to use RSA's BSAFE and TPEM software developer's kits to build security into Spyglass' technology offerings. BSAFE is a well-known cryptographer's tool kit, providing the means to add multiple algorithms and modules for encryption and authentication features to any application.

On November 3, 1995, the Company entered into an agreement with the Java Products Group of Sun Microsystems, Inc. to license the JAVA programming language, the HOT JAVA browser and related technology. Under the agreement, the Company is granted the right to distribute the JAVA Runtime interpreter, the HOT JAVA browser and certain JAVA classes and interfaces developed by both Sun and the Company. The Company also has the right to port so-called "platform dependent parts" to other platforms.

Employees

As of December 10, 1998, Spyglass employed 127 persons, including 23 in sales and marketing, 40 in research and development, 29 in professional services and 35 in finance and administrative functions. None of the Company's employees are represented by a labor union and Spyglass considers its employee relations to be good.

Item 2. Properties

The Company's executive offices are located in Naperville, Illinois (27,841 square feet) and are occupied under a lease that expires in December 1999. The Company also leases facilities Cambridge, Massachusetts, Los Gatos, California and Los Altos, California. The Company leases sales offices in San Ramon, California, Morristown, New Jersey, Marina del Rey, California, Berkshire, United Kingdom and Tokyo, Japan.

Item 3. Legal Proceedings

Unisys Corporation ("Unisys") has announced its intention to require the payment of royalties for the use of compression technology associated with the Graphics Interchange Format ("GIF"), a popular file format based on compression technology patented by Unisys. Spyglass Device Mosaic has the ability to decompress files, including files stored in GIF. The assertion of these patent rights by Unisys, if successful, could result in additional royalty costs to the Company or prevent the Company's products from enabling users to view files compressed in GIF.

Item 4. Submission of Matters To A Vote of Security Holders

No matters were submitted to a vote of the Company's security holders during the quarter ended September 30, 1998.

Executive Officers of the Registrant

Name	Age	Position(s)with the Company
Douglas P. Colbeth.....	43	President, Chief Executive Officer and Director
Randall T. Littleson.....	33	Vice President and General Manager
Christian T. Nall.....	37	Vice President, Business Development
Michael F. Tyrrell.....	39	Executive Vice President, Business Development
Gary L. Vilchick.....	44	Executive Vice President, Finance, Administration and Operations and Chief Financial Officer

Mr. Colbeth has been President, Chief Executive Officer and a director of the Company since he joined the Company in April 1991. Prior to joining the Company, Mr. Colbeth spent four years at Stellar/Stardent Computer Corp., a high-end graphics workstation supplier, in various management positions, most recently as Vice President/General Manager of its AVS software business unit. From January 1979 until March 1987, Mr. Colbeth was employed in various sales and management positions at Prime Computer, Inc., a minicomputer vendor. Mr. Colbeth received his B.S. degree in economics from Siena College in 1977 and has completed graduate studies in managerial economics at Rensselaer Polytechnic Institute.

Mr. Littleson joined the Company as Director, Product Marketing in June 1996 and was promoted to Vice President, Marketing in October 1996 and Vice President and General Manager in February 1998. Prior to joining the Company, Mr. Littleson served in various management positions for Seagate Software (formerly Palindrome Corp.), a

developer of data management software solutions, for six years and a systems engineer for Novell prior to that. Mr. Littleton received his B.S. degree from the University of Michigan in 1987 and his M.B.A. from Keller Graduate School of Management in 1994.

Mr. Nall joined the Company in September 1995 as Director, Western Operations and was promoted to Vice President, Business Development in January 1997. Prior to joining the Company, Mr. Nall was District Manager, Midwest Region for Hitachi Data Systems, a computer system manufacturer, and Business Unit Executive, Silicon Valley for IBM for 10 years prior to that. Mr. Nall received his Bachelor of Science degree from the University of California, Berkley in 1982.

Mr. Tyrrell joined the Company in June 1990 as Vice President, Sales. Mr. Tyrrell has served as Executive Vice President, Business Development since November 1995. Prior to joining the Company, Mr. Tyrrell spent three years as a regional sales manager for Multiflow Computer, Inc., a supercomputer company. Mr. Tyrrell's prior experience includes five years of sales and sales management at Celerity Computing and Prime Computer, Inc. Mr. Tyrrell received his B.S. degree in business administration from the University of New Hampshire.

Mr. Vilchick joined the Company in December 1995 as Executive Vice President, Finance, Administration and Operations and Chief Financial Officer. Prior to joining the Company, Mr. Vilchick was the Vice President of Finance for Pitney Bowes Logistics Systems, a provider of technology for supply chain management solutions for three years, and Controller for Pitney Bowes Management Services for four years prior to that. Mr. Vilchick received his B.S. degree in accounting from the University of Rhode Island. Mr. Vilchick is a Certified Public Accountant.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The Company had 625 shareholders of record as of December 9, 1998.

The additional information required by this Item is incorporated herein by reference from the sections entitled "Selected Quarterly Data" and "Shares Listed" in the Company's Annual Report to stockholders for the fiscal year ended September 30, 1998 (the "Annual Report").

On November 14, 1997, the Company issued 639,246 shares of common stock in exchange for all of the outstanding common stock of AllPen Software. No underwriters were engaged in connection with such issuance. The shares issued in this transaction were offered and sold in reliance upon the exemption from registration under Section

4(2) of the Securities Act of 1933.

Item 6. Selected Financial Data

The information required by this Item is incorporated herein by reference from the section entitled "Selected Financial Data" in the Annual Report.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information required by this Item is incorporated herein by reference from the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company exports products to diverse geographic areas. Substantially all foreign sales, however, are transacted in U.S. dollars and therefore the Company is not exposed to significant foreign currency market risk.

Item 8. Financial Statements and Supplementary Data

The information required by this Item is incorporated herein by reference from the financial statements contained in the Annual Report.

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by this Item concerning directors of the Company is incorporated herein by reference from the section entitled "Election of Directors" included in the Company's definitive Proxy Statement for the Annual Meeting of Stockholders for the fiscal year ended September 30, 1998, which will be filed with the Securities and Exchange commission within 120 days of the Company's fiscal year end (the "1998 Proxy Statement"). The information required by this Item concerning executive officers of the Company is included in Part I of this Annual Report on Form 10-K under the section captioned "Executive Officers of the Registrant". The information required by this Item concerning compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, is incorporated herein by reference from the section entitled "Other Matters--Section 16(a) Beneficial

Ownership Reporting Compliance" included in the 1998 Proxy Statement.

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference from the sections entitled "Election of Directors--Compensation Committee Interlocks and Insider Participation", "Election of Directors--Compensation of Directors", "Executive Compensation" and "Executive Compensation--Employment Agreements" included in the 1998 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this Item is incorporated herein by reference from the section entitled "Beneficial Ownership of Voting Stock" included in the 1998 Proxy Statement.

Item 13. Certain Relationships and Related Transactions

The information required by this Item is not applicable.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) The following financial information is incorporated by reference into Part II hereof from the Annual Report

1. Financial Statements:

Report of Independent Auditors

Consolidated Balance Sheets at September 30,
1998 and 1997

Consolidated Statements of Operations for the three
years ended September 30, 1998

Consolidated Statements of Changes in Stockholders' Equity
for the three years ended September 30, 1998

Consolidated Statements of Cash Flows for the three years
ended September 30, 1998

Notes to the Consolidated Financial Statements

2. Financial Statement Schedules:

Report of Independent Auditors on Financial Statement Schedule

Schedule II - Valuation and Qualifying Accounts

All other schedules have been omitted because they are not applicable, not required, or the information required is included in the financial statements or notes thereto.

3. Exhibits

The exhibits are listed in the accompanying Index to Exhibits immediately following the signature page.

(b) Reports on Form 8-K

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Spyglass, Inc.
Registrant

Date: December 21, 1998

/s/ Gary L. Vilchick

Gary L. Vilchick
Executive Vice President,
Finance, Administration and
Operations and Chief
Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below as of December 21, 1998 by the following persons on behalf of the registrant and in the capacities indicated.

Signature

/s/ Douglas P. Colbeth
Douglas P. Colbeth
President, Chief Executive Officer and Director
(Principal Executive Officer)

/s/ Gary L. Vilchick
Gary L. Vilchick
Executive Vice President, Finance, Administration
And Operations and Chief Financial Officer
(Principal Financial and Accounting Officer)

/s/ Tim Krauskopf
Tim Krauskopf
Director

/s/ Brian J. Jackman
Brian J. Jackman
Director

/s/ John Shackleton
John Shackleton
Director

/s/ Charles T. Brumback
Charles T. Brumback
Director

REPORT OF INDEPENDENT AUDITORS
ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors and Stockholders of Spyglass, Inc.

We have audited the consolidated financial statements of Spyglass, Inc. and subsidiaries as of September 30, 1998 and 1997, and for each of the two years in the period ended September 30, 1998, and have issued our report thereon dated October 19, 1998. Our audits also included the financial statement schedule listed in the Index at Item 14(a). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. The consolidated financial statements and financial statement schedule of Spyglass, Inc. and subsidiaries as of and for the year ended September 30, 1996 were audited by other auditors whose report dated October 25, 1996 expressed an unqualified opinion on those statements and schedule.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Ernst & Young LLP
Chicago, Illinois
October 19, 1998

SPYGLASS, INC.
SCHEDULE II

Valuation and Qualifying Accounts

Description	Balance at beginning of period period	Charged to costs and expenses	Charged to other accounts	(1) Deductions	Balance at end of period
September 30, 1998 Allowance for doubtful accounts	\$350,000	309,068	13,000	243,068	\$429,000
September 30, 1997 Allowance for doubtful accounts	\$470,000	1,029,051	-	1,149,051	\$350,000
September 30, 1996 Allowance for doubtful accounts	\$180,209	301,034	-	11,243	\$470,000

(1)- Bad debt write-offs

INDEX TO EXHIBITS

Exhibit No.	Description
3.1(1)	Amended and Restated Certificate of Incorporation of the Registrant, as amended
3.2(2)	By-laws of the Registrant
4.1(2)	Specimen certificate for shares of Common Stock
10.1(2)	1991 Stock Option Plan *
10.2	1995 Stock Incentive Plan, as amended *
10.3(2)	1995 Director Stock Option Plan *
10.4(2)	Employment and Confidentiality Agreement between the Registrant and Douglas P. Colbeth dated April 1, 1991 *
10.5(2)	Employment and Confidentiality Agreement between the Registrant and Michael F. Tyrrell dated April 29, 1991 *
10.6(7)	Senior Management Retention Agreement between the

- Registrant and Doug Colbeth, dated November 1, 1996 *
- 10.7(7) Senior Management Retention Agreement between the Registrant and Michael Tyrrell, dated November 1, 1996 *
- 10.8(7) Senior Management Retention Agreement between the Registrant and Gary Vilchick, dated November 1, 1996 *
- 10.9(7) Senior Management Retention Agreement between the Registrant and Randall T. Littleson, dated November 1, 1996 *
- 10.10(3) Standard form of Employment and Confidentiality Agreement
- 10.11(2) NCSA Mosaic Software License Agreement between the Registrant and the Board of Trustees for the University of Illinois dated May 10, 1994, as amended by amendment No. 1 dated May 10, 1994, amendment No. 2 dated August 4, 1994 and amendment No. 3 dated March 21, 1995(5)
- 10.12(3) Amendment No. 4 to NCSA Mosaic Software License Agreement between the Registrant and the Board of Trustees for the University of Illinois, dated June 28, 1995. (5)
- 10.13(2) OEM/Source License Agreement , dated December 12, 1994, between the Registrant and Microsoft Corporation.
- 10.14(4) Amendment No. 1 to the OEM/Source License Agreement between the Registrant and Microsoft Corporation, dated September 26, 1995. (5)
- 10.15(4) Technology Cooperation Agreement, Including Amendment of OEM/Source License Agreement between the Registrant and Microsoft Corporation dated December 6, 1995 (5)
- 10.16 (7) Amendment No. 1, dated September 30, 1996, to the Technology Cooperation Agreement, Including Amendment of OEM/Source License Agreement between

- the Registrant and Microsoft Corporation, dated December 6, 1995(5)
- 10.17(8) Amendment No. 2 to the Technology Cooperation Agreement, Including Amendment of OEM/Source License Agreement between the Registrant and Microsoft Corporation, dated January 21, 1997.
- 10.18(3) RSA Data Security, Inc.-BSAFE/TIPEM OEM Master License Agreement dated August 8, 1995(5)
- 10.19(6) Sub-Lease Agreement between Rust Environment & Infrastructure, Inc. and the Registrant dated February 6, 1996
- 10.20(9) Office Lease Agreement between American National Bank and Trust Company of Chicago Trust No. 43194 and the Registrant dated May 28, 1997
- 10.21(6) Standard Form of Invention and Non-Disclosure Agreement
- 10.22(6) Standard Form of Non-Disclosure Agreement
- 10.23(10) Source Code License and Distribution Agreement between the Company and Motorola, Inc. dated as of June 25, 1998(5)
- 10.24+ Amendment 1 to the Source Code License and Distribution Agreement between the Company and Motorola, Inc. dated as of June 25, 1998
- 10.25+ Common Stock and Warrant Purchase Agreement between the Company and General Instrument Corporation dated October 19, 1998
- 10.26+ Digital Software Integration Center Sourcing Agreement between the Company and General Instrument Corporation dated November 1, 1998
- 10.27+ Operating Agreement between the Company

- 13.1 Portions of the Annual Report to Stockholders for the fiscal year ended September 30, 1998 (only those portions specifically incorporated by reference herein are filed herewith).
- 21 Subsidiaries of the Registrant
- 23.1 Consent of Ernst & Young LLP
- 23.2 Consent of PricewaterhouseCoopers LLP
- 27 Financial Data Schedule
- (1) Incorporated herein by reference from the Company's Registration Statement on Form S-8 (File No. 333-04357) filed on May 23, 1996.
- (2) Incorporated herein by reference from the Company's Registration Statement on Form S-1 (File No. 33-92174).
- (3) Incorporated herein by reference from the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1995, as amended by an Annual Report on Form 10-K/A filed on May 17, 1996.
- (4) Incorporated herein by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 1995, as amended by a Quarterly Report on Form 10-Q/A filed on May 17, 1996.
- (5) Confidential treatment previously granted by the Securities and Exchange Commission as to certain portions, which are omitted and filed separately with the Commission.
- (6) Incorporated herein by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996.
- (7) Incorporated herein by reference from the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1996.
- (8) Incorporated herein by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 1996.
- (9) Incorporated herein by reference from the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1997.
- (10) Incorporated herein by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.

- + Confidential treatment requested as to certain portions, which portions are omitted and filed separately with the Securities and Exchange Commission.

- * Management contract or compensatory plan or arrangement filed as an Exhibit to this form pursuant to Items 14(a) and 14(c) of Form 10-K.

SPYGLASS, INC.

1995 STOCK INCENTIVE PLAN, AS AMENDED

1. Purpose

The purpose of this 1995 Stock Incentive Plan (the "Plan") of Spyglass, Inc., a Delaware corporation (the "Company"), is to advance the interests of the Company by enhancing its ability to attract and retain key employees, consultants and others who are in a position to contribute to the Company's future growth and success.

2. Definitions

"Award" means any Option, Stock Appreciation Right, Performance Shares, Restricted Stock or Unrestricted Stock awarded under the Plan.

"Board" means the Board of Directors of the Company.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Committee" means a committee of not less than two members of the Board appointed by the Board to administer the Plan, provided that if and when the Common Stock is registered under Section 12 of the Exchange Act, each member of the Committee shall be a "Non-Employee Director" within the meaning of Rule 16b-3 under the Exchange Act ("Rule 16b-3").

"Common Stock" means the Common Stock, \$.01 par value per share, of the Company.

"Company" means Spyglass, Inc. and, except where the context otherwise requires, all present and future subsidiaries of Spyglass, Inc. as defined in Section 424(f) of the Code.

"Designated Beneficiary" means the beneficiary designated by a Participant, in a manner determined by the Board, to receive amounts due or exercise rights of the Participant in the event of

the Participant's death. In the absence of an effective designation by a Participant, Designated Beneficiary shall mean the Participant's estate.

"Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time.

"Fair Market Value" means, with respect to Common Stock or any other property, the fair market value of such property as determined by the Board in good faith or in the manner established by the Board from time to time.

"Incentive Stock Option" means an option to purchase shares of Common Stock awarded to a Participant under Section 6 which is intended to meet the requirements of Section 422 of the Code or any successor provision.

"Nonstatutory Stock Option" means an option to purchase shares of Common Stock awarded to a Participant under Section 6 which is not intended to be an Incentive Stock Option.

"Option" means an Incentive Stock Option or a Nonstatutory Stock Option.

"Participant" means a person selected by the Board to receive an Award under the Plan.

"Performance Shares" mean shares of Common Stock which may be earned by the achievement of performance goals established for a Participant under Section 8.

"Reporting Person" means a person subject to Section 16 of the Exchange Act or any successor provision.

"Restricted Period" means the period of time selected by the Board during which shares subject to a Restricted Stock Award may be repurchased by or forfeited to the Company.

"Restricted Stock" means shares of Common Stock awarded to a Participant under Section 9.

"Stock Appreciation Right" or "SAR" means a right to receive any excess in Fair Market Value of shares of Common Stock over the exercise price awarded to a Participant under Section 7.

"Unrestricted Stock" means shares of Common Stock awarded to a Participant under Section 9(c).

3. Administration

The Plan will be administered by the Board. The Board shall

have authority to make Awards and to adopt, amend and repeal such administrative rules, guidelines and practices relating to the Plan as it shall deem advisable from time to time, and to interpret the provisions of the Plan. The Board's decisions shall be final and binding. No member of the Board shall be liable for any action or determination relating to the Plan made in good faith. To the extent permitted by applicable law, the Board may delegate to one or more executive officers of the Company the power to make Awards to Participants who are not Reporting Persons and all determinations under the Plan with respect thereto, provided that the Board shall fix the maximum amount of such Awards to be made by such executive officers and a maximum amount for any one Participant. To the extent permitted by applicable law, the Board may appoint a Committee to administer the Plan and, in such event, all references to the Board in the Plan shall mean such Committee or the Board. All decisions by the Board or the Committee pursuant to the Plan shall be final and binding on all persons having or claiming any interest in the Plan or in any Award.

4. Eligibility

All of the Company's employees, officers, directors, consultants and advisors who are expected to contribute to the Company's future growth and success, other than persons who have irrevocably elected not to be eligible, are eligible to be Participants in the Plan. Incentive Stock Options may be awarded only to persons eligible to receive Incentive Stock Options under the Code.

5. Stock Available for Awards

(a) Subject to adjustment under subsection (b) below, Awards may be made under the Plan for up to 3,300,000 shares of Common Stock. If any Award in respect of shares of Common Stock expires or is terminated unexercised or is forfeited for any reason or settled in a manner that results in fewer shares outstanding than were initially awarded, the shares subject to such Award or so surrendered, as the case may be, to the extent of such expiration, termination, forfeiture or decrease, shall again be available for award under the Plan, subject, however, in the case of Incentive Stock Options, to any limitation required under the Code and provided that shares made available pursuant to this sentence shall be available for Awards to Reporting Persons only to the extent consistent with Rule 16b-3. Shares issued under the Plan may consist in whole or in part of authorized but unissued shares or treasury shares.

(b) In the event that the Board, in its sole discretion, determines that any stock dividend, extraordinary cash dividend,

recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination or other similar transaction affects the Common Stock such that an adjustment is required in order to preserve the benefits or potential benefits intended to be made available under the Plan, then the Board, subject, in the case of Incentive Stock Options, to any limitation required under the Code, shall equitably adjust any or all of (i) the number and kind of shares in respect of which Awards may be made under the Plan, (ii) the number and kind of shares subject to outstanding Awards, and (iii) the award, exercise or conversion price with respect to any of the foregoing, and if considered appropriate, the Board may make provision for a cash payment with respect to an outstanding Award, provided that the number of shares subject to any Award shall always be a whole number.

(c) The Board may grant Awards under the Plan in substitution for stock and stock based awards held by employees of another corporation who concurrently become employees of the Company as a result of a merger or consolidation of the employing corporation with the Company (or a subsidiary of the Company) or the acquisition by the Company (or a subsidiary of the Company) of property or stock of the employing corporation. The substitute Awards shall be granted on such terms and conditions as the Board considers appropriate in the circumstances.

(d) Subject to adjustment under Section 5(b), the maximum number of shares with respect to which an Award may be granted to any employee under the Plan shall not exceed 150,000 per calendar year. For purposes of calculating such maximum number, (a) an Award shall continue to be treated as outstanding notwithstanding its repricing, cancellation or expiration and (b) the repricing of an outstanding Award or issuance of a new Award in substitution for a cancelled Award shall be deemed to constitute the grant of a new additional Award separate from the original grant of the Award that is repriced or cancelled.

6. Stock Options

(a) General

(i) Subject to the provisions of the Plan, the Board may award Incentive Stock Options and Nonstatutory Stock Options, and determine the number of shares of Common Stock to be covered by each Option, the option price of such Option and the conditions and limitations applicable to the exercise of such Option. The terms and conditions of Incentive Stock Options shall be subject to and comply with Section 422 of the Code, or any successor provision, and any regulations thereunder.

(ii) The Board shall establish the exercise price

at the time each Option is awarded. In the case of Incentive Stock Options, such price shall not be less than 100% of the Fair Market Value of the Common Stock on the date of award.

(iii) Each Option shall be exercisable at such times and subject to such terms and conditions as the Board may specify in the applicable Award or thereafter. The Board may impose such conditions with respect to the exercise of Options, including conditions relating to applicable federal or state securities laws, as it considers necessary or advisable.

(iv) Options granted under the Plan may provide for the payment of the exercise price by delivery of cash or check in an amount equal to the exercise price of such Options or, to the extent permitted by the Board at or after the award of the Option, by (A) delivery of shares of Common Stock owned by the optionee for at least six months (or such shorter period as is approved by the Board), valued at their Fair Market Value, (B) delivery of a promissory note of the optionee to the Company on terms determined by the Board, (C) delivery of an irrevocable undertaking by a broker to deliver promptly to the Company sufficient funds to pay the exercise price or delivery of irrevocable instructions to a broker to deliver promptly to the Company cash or a check sufficient to pay the exercise price, (D) payment of such other lawful consideration as the Board may determine, or (E) any combination of the foregoing.

(v) The Board may provide for the automatic award of an Option upon the delivery of shares to the Company in payment of the exercise price of an Option for up to the number of shares so delivered.

(vi) The Board may at any time accelerate the time at which all or any part of an Option may be exercised.

(b) Incentive Stock Options

Options granted under the Plan which are intended to be Incentive Stock Options shall be subject to the following additional terms and conditions:

(i) All Incentive Stock Options granted under the Plan shall, at the time of grant, be specifically designated as such in the option agreement covering such Incentive Stock Options. The Option exercise period shall not exceed ten years from the date of grant.

(ii) If any employee to whom an Incentive Stock Option is to be granted under the Plan is, at the time of the grant of such option, the owner of stock possessing more than 10% of the

total combined voting power of all classes of stock of the Company (after taking into account the attribution of stock ownership rule of Section 424(b) and of the Code), then the following special provisions shall be applicable to the Incentive Stock Option granted to such individual:

(x) The purchase price per share of the Common Stock subject to such Incentive Stock Option shall not be less than 110% of the Fair Market Value of one share of Common Stock at the time of grant; and

(y) The option exercise period shall not exceed five years from the date of grant.

(iii) For so long as the Code shall so provide, options granted to any employee under the Plan (and any other incentive stock option plans of the Company) which are intended to constitute Incentive Stock Options shall not constitute Incentive Stock Options to the extent that such options, in the aggregate, become exercisable for the first time in any one calendar year for shares of Common Stock with an aggregate Fair Market Value (determined as of the respective date or dates of grant) of more than \$100,000.

(iv) No Incentive Stock Option may be exercised unless, at the time of such exercise, the Participant is, and has been continuously since the date of grant of his or her Option, employed by the Company, except that:

(x) an Incentive Stock Option may be exercised within the period of three months after the date the Participant ceases to be an employee of the Company (or within such lesser period as may be specified in the applicable option agreement), provided, that the agreement with respect to such Option may designate a longer exercise period and that the exercise after such three-month period shall be treated as the exercise of a Nonstatutory Stock Option under the Plan;

(y) if the Participant dies while in the employ of the Company, or within three months after the Participant ceases to be such an employee, the Incentive Stock Option may be exercised by the Participant's Designated Beneficiary within the period of one year after the date of death (or within such lesser period as may be specified in the applicable Option agreement); and

(z) if the Participant becomes disabled (within the meaning of Section 22(e)(3) of the Code or any successor provision thereto) while in the employ of the Company, the Incentive Stock Option may be exercised within the period of

one year after the date of death (or within such lesser period as may be specified in the applicable Option agreement).

For all purposes of the Plan and any Option granted hereunder, "employment" shall be defined in accordance with the provisions of Section 1.421-7(h) of the Income Tax Regulations (or any successor regulations). Notwithstanding the foregoing provisions, no Incentive Stock Option may be exercised after its expiration date.

(v) Incentive Stock Options shall not be assignable or transferable by the person to whom they are granted, either voluntarily or by operation of law, except by will or the laws of descent and distribution, and, during the life of the optionee, shall be exercisable only by the optionee.

7. Stock Appreciation Rights

(a) The Board may grant SARs entitling recipients on exercise of the SAR to receive an amount, in cash or Common Stock or a combination thereof (such form to be determined by the Board), determined in whole or in part by reference to appreciation in the Fair Market Value of the Common Stock between the date of the Award and the exercise of the Award. A SAR shall entitle the Participant to receive, with respect to each share of Common Stock as to which the SAR is exercised, the excess of the share's Fair Market Value on the date of exercise over its Fair Market Value on the date the SAR was granted. The Board may also grant SARs that provide that, following a change in control of the Company (as defined by the Board at the time of the Award), the holder of such SAR will be entitled to receive, with respect to each share of Common Stock subject to the SAR, an amount equal to the excess of a specified value (which may include an average of values) for a share of Common Stock during a period preceding such change in control over the Fair Market Value of a share of Common Stock on the date the SAR was granted.

(b) SARs may be granted in tandem with, or independently of, Options granted under the Plan. A SAR granted in tandem with an Option which is not an Incentive Stock Option may be granted either at or after the time the Option is granted. A SAR granted in tandem with an Incentive Stock Option may be granted only at the time the Option is granted.

(c) When SARs are granted in tandem with Options, the following provisions will apply:

(i) The SAR will be exercisable only at such time or times, and to the extent, that the related Option is exercisable and will be exercisable in accordance with the procedure required

for exercise of the related Option.

(ii) The SAR will terminate and no longer be exercisable upon the termination or exercise of the related Option, except that a SAR granted with respect to less than the full number of shares covered by an Option will not be reduced until the number of shares as to which the related Option has been exercised or has terminated exceeds the number of shares not covered by the SAR.

(iii) The Option will terminate and no longer be exercisable upon the exercise of the related SAR.

(iv) The SAR will be transferable only with the related Option.

(v) A SAR granted in tandem with an Incentive Stock Option may be exercised only when the market price of the Common Stock subject to the Option exceeds the exercise price of such Option.

(d) A SAR not granted in tandem with an Option will become exercisable at such time or times, and on such conditions, as the Board may specify.

(e) The Board may at any time accelerate the time at which all or any part of the SAR may be exercised.

8. Performance Shares

(a) The Board may make Performance Share Awards entitling recipients to acquire shares of Common Stock upon the attainment of specified performance goals. The Board may make Performance Share Awards independent of or in connection with the granting of any other Award under the Plan. The Board in its sole discretion shall determine the performance goals applicable under each such Award, the periods during which performance is to be measured, and all other limitations and conditions applicable to the awarded Performance Shares; provided, however, that the Board may rely on the performance goals and other standards applicable to other performance plans of the Company in setting the standards for Performance Share Awards under the Plan.

(b) Performance Share Awards and all rights with respect to such Awards may not be sold, assigned, transferred, pledged or otherwise encumbered.

(c) A Participant receiving a Performance Share Award shall have the rights of a stockholder only as to shares actually received by the Participant under the Plan and not with respect to shares subject to an Award but not actually received by the

Participant. A Participant shall be entitled to receive a stock certificate evidencing the acquisition of shares of Common Stock under a Performance Share Award only upon satisfaction of all conditions specified in the agreement evidencing the Performance Share Award.

(d) The Board may at any time accelerate or waive any or all of the goals, restrictions or conditions imposed under any Performance Share Award.

9. Restricted and Unrestricted Stock

(a) The Board may grant Restricted Stock Awards entitling recipients to acquire shares of Common Stock, subject to the right of the Company to repurchase all or part of such shares at their purchase price (or to require forfeiture of such shares if purchased at no cost) from the recipient in the event that conditions specified by the Board in the applicable Award are not satisfied prior to the end of the applicable Restricted Period or Restricted Periods established by the Board for such Award. Conditions for repurchase (or forfeiture) may be based on continuing employment or service or achievement of pre-established performance or other goals and objectives.

(b) Shares of Restricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered, except as permitted by the Board, during the applicable Restricted Period. Shares of Restricted Stock shall be evidenced in such manner as the Board may determine. Any certificates issued in respect of shares of Restricted Stock shall be registered in the name of the Participant and, unless otherwise determined by the Board, deposited by the Participant, together with a stock power endorsed in blank, with the Company (or its designee). At the expiration of the Restricted Period, the Company (or such designee) shall deliver such certificates to the Participant or if the Participant has died, to the Participant's Designated Beneficiary.

(c) The Board may, in its sole discretion, grant (or sell at a purchase price determined by the Board, which shall not be lower than 85% of Fair Market Value on the date of sale) to Participants shares of Common Stock free of any restrictions under the Plan ("Unrestricted Stock").

(d) The purchase price for each share of Restricted Stock and Unrestricted Stock shall be determined by the Board of Directors and may not be less than the par value of the Common Stock. Such purchase price may be paid in the form of past services or such other lawful consideration as is determined by the Board.

(e) The Board may at any time accelerate the expiration of the Restricted Period applicable to all, or any particular, outstanding shares of Restricted Stock.

10. General Provisions Applicable to Awards

(a) Applicability of Rule 16b-3. Those provisions of the Plan which make an express reference to Rule 16b-3 shall apply to the Company only at such time as the Company's Common Stock is registered under the Exchange Act, or any successor provision, and then only to Reporting Persons.

(b) Reporting Person Limitations. Notwithstanding any other provision of the Plan, to the extent required to qualify for the exemption provided by Rule 16b-3, (i) any Option, SAR, Performance Share Award or other similar right related to an equity security issued under the Plan to a Reporting Person shall not be transferable other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or Title I or the Employee Retirement Income Security Act ("ERISA"), or the rules thereunder, and shall be exercisable during the Participant's lifetime only by the Participant or the Participant's guardian or legal representative, and (ii) the selection of a Reporting Person as a Participant and the terms of his or her Award shall be determined only in accordance with the applicable provisions of Rule 16b-3.

(c) Documentation. Each Award under the Plan shall be evidenced by an instrument delivered to the Participant specifying the terms and conditions thereof and containing such other terms and conditions not inconsistent with the provisions of the Plan as the Board considers necessary or advisable. Such instruments may be in the form of agreements to be executed by both the Company and the Participant, or certificates, letters or similar documents, acceptance of which will evidence agreement to the terms thereof and of this Plan.

(d) Board Discretion. Except as otherwise provided by the Plan, each type of Award may be made alone, in addition to or in relation to any other type of Award. The terms of each type of Award need not be identical, and the Board need not treat Participants uniformly. Except as otherwise provided by the Plan or a particular Award, any determination with respect to an Award may be made by the Board at the time of award or at any time thereafter.

(e) Termination of Status. Subject to the provisions of Section 6(b)(iv), the Committee shall determine the effect on an Award of the disability, death, retirement, authorized leave of absence or other termination of employment or other status of a Participant and the extent to which, and the period during which,

the Participant's legal representative, guardian or Designated Beneficiary may exercise rights under such Award.

(f) Mergers, Etc. In the event of a consolidation, merger or other reorganization in which all of the outstanding shares of Common Stock are exchanged for securities, cash or other property of any other corporation or business entity (an "Acquisition") or in the event of a liquidation of the Company, the Board of Directors of the Company, or the board of directors of any corporation assuming the obligations of the Company, may, in its discretion, take any one or more of the following actions as to outstanding Awards: (i) provide that such Awards shall be assumed, or substantially equivalent Awards shall be substituted, by the acquiring or succeeding corporation (or an affiliate thereof) on such terms as the Board determines to be appropriate, (ii) upon written notice to Participants, provide that all unexercised Options or SARs will terminate immediately prior to the consummation of such transaction unless exercised by the Participant within a specified period following the date of such notice, (iii) in the event of an Acquisition under the terms of

which holders of the Common Stock of the Company will receive upon consummation thereof a cash payment for each share surrendered in the Acquisition (the "Acquisition Price"), make or provide for a cash payment to Participants equal to the difference between (A) the Acquisition Price times the number of shares of Common Stock subject to outstanding Options or SARs (to the extent then exercisable at prices not in excess of the Acquisition Price) and (B) the aggregate exercise price of all such outstanding Options or SARs in exchange for the termination of such Options and SARs, and (iv) provide that all or any outstanding Awards shall become exercisable or realizable in full prior to the effective date of such Acquisition.

(g) Withholding. The Participant shall pay to the Company, or make provision satisfactory to the Board for payment of, any taxes required by law to be withheld in respect of Awards under the Plan no later than the date of the event creating the tax liability. In the Board's discretion, and subject to such conditions as the Board may establish, such tax obligations may be paid in whole or in part in shares of Common Stock, including shares retained from the Award creating the tax obligation, valued at their Fair Market Value. The Company may, to the extent permitted by law, deduct any such tax obligations from any payment of any kind otherwise due to the Participant.

(h) Foreign Nationals. Awards may be made to Participants who are foreign nationals or employed outside the United States on such terms and conditions different from those specified in the Plan as the Board considers necessary or advisable to achieve the purposes of the Plan or comply with applicable laws.

(i) Amendment of Award. The Board may amend, modify or terminate any outstanding Award, including substituting therefor another Award of the same or a different type, changing the date of exercise or realization and converting an Incentive Stock Option to a Nonstatutory Stock Option, provided that the Participant's consent to such action shall be required unless the Board determines that the action, taking into account any related action, would not materially and adversely affect the Participant.

(j) Cancellation and New Grant of Options. The Board of Directors shall have the authority to effect, at any time and from time to time, with the consent of the affected optionees, (i) the cancellation of any or all outstanding Options under the Plan and the grant in substitution therefor of new Options under the Plan covering the same or different numbers of shares of Common Stock and having an option exercise price per share which may be lower or higher than the exercise price per share of the cancelled Options or (ii) the amendment of the terms of any and all outstanding Options under the Plan to provide an option exercise price per share which is higher or lower than the then current exercise price per share of such outstanding Options.

(k) Conditions on Delivery of Stock. The Company will not be obligated to deliver any shares of Common Stock pursuant to the Plan or to remove restrictions from shares previously delivered under the Plan (i) until all conditions of the Award have been satisfied or removed, (ii) until, in the opinion of the Company's counsel, all applicable federal and state laws and regulations have been complied with, (iii) if the outstanding Common Stock is at the time listed on any stock exchange, until the shares to be delivered have been listed or authorized to be listed on such exchange upon official notice of notice of issuance, and (iv) until all other legal matters in connection with the issuance and delivery of such shares have been approved by the Company's counsel. If the sale of Common Stock has not been registered under the Securities Act of 1933, as amended, the Company may require, as a condition to exercise of the Award, such representations or agreements as the Company may consider appropriate to avoid violation of such Act and may require that the certificates evidencing such Common Stock bear an appropriate legend restricting transfer.

11. Miscellaneous

(a) No Right To Employment or Other Status. No person shall have any claim or right to be granted an Award, and the grant of an Award shall not be construed as giving a Participant the right to continued employment or service for the Company. The Company expressly reserves the right at any time to dismiss a

Participant free from any liability or claim under the Plan, except as expressly provided in the applicable Award.

(b) No Rights As Stockholder. Subject to the provisions of the applicable Award, no Participant or Designated Beneficiary shall have any rights as a stockholder with respect to any shares of Common Stock to be distributed under the Plan until he or she becomes the record holder thereof.

(c) Exclusion from Benefit Computations. No amounts payable upon exercise of Awards granted under the Plan shall be considered salary, wages or compensation to Participants for purposes of determining the amount or nature of benefits that Participants are entitled to under any insurance, retirement or other benefit plans or programs of the Company.

(d) Effective Date and Term. The Plan shall become effective upon the closing of the Company's initial public offering. No Award granted under the Plan shall become effective until the Plan shall have been approved by the Company's stockholders. If such stockholder approval is not obtained within twelve months after the date of the Board's adoption of the Plan, no Options previously granted under the Plan shall be deemed to be Incentive Stock Options and no Incentive Stock Options shall be granted thereafter. No Award may be made under the Plan after May 7, 2005, but Awards previously granted may extend beyond that date.

(e) Amendment of Plan. The Board may amend, suspend or terminate the Plan or any portion thereof at any time, provided that no amendment shall be made without stockholder approval if such approval is necessary to comply with any applicable tax or regulatory requirement. Amendments requiring stockholder approval shall become effective when adopted by the Board of Directors, but no Incentive Stock Option granted after the date of such amendment shall become exercisable (to the extent that such amendment to the Plan was required to enable the Company to grant such Incentive Stock Option to a particular Participant) unless and until such amendment shall have been approved by the Company's stockholders. If such stockholder approval is not obtained within twelve months of the Board's adoption of such amendment, any Incentive Stock Options granted on or after the date of such amendment shall terminate to the extent that such amendment to the Plan was required to enable the Company to grant such option to a particular Participant.

(f) Governing Law. The provisions of the Plan shall be governed by and interpreted in accordance with the laws of the State of Delaware.

Confidential Materials omitted and filed separately with the Securities and Exchange Commission. Asterisks denote omissions.

AMENDMENT I

This Amendment and attachments hereto (the "Amendment"), effective as of September 30, 1998, is entered into upon the latest date following the signatures hereto by and between Spyglass, Inc., ("Spyglass") and Motorola, Inc. ("Licensee") and is attached to and incorporated in its entirety into that certain Source License and Distribution Agreement by and between Spyglass and Licensee dated June 25, 1998 (the "Agreement").

Notwithstanding anything to the contrary contained in the Agreement, and in consideration of the mutual promises, covenants and conditions contained in the Agreement and contained herein, the parties hereby covenant and agree to the foregoing and as follows:

1. Capitalized terms herein will have the meanings identified in the Agreement unless otherwise defined in this Amendment. For purposes of this Amendment, the existing definition of "Licensed Software" in Section 1.5 shall be deleted and replaced in its entirety with the following new definition:

"1.5 "Licensed Software" means the standard non-customized code base of the software described in Exhibit A attached to the Agreement and Exhibit A-1 attached hereto, and any derivative works thereof."

2. Section 2.2 Distribution License shall be amended to add the following new subsections (c), (d), and (e) respectively:

"2.2(c). Subject to the terms and conditions contained herein, Spyglass grants the Licensee, and the Licensee accepts, a non-exclusive, non-transferable, perpetual, irrevocable (subject to Section 7.2) right and license, under all Intellectual Property rights of Spyglass, in the Territory to copy and distribute copies of the Source Code Form of the *** of the Device Mosaic segment of the Licensed Software only, and only as incorporated into or bundled with the Licensee Products and subject to the requirements set forth in Section 2.4 below, to Resellers and Sublicensees solely to allow Licensee to grant such Resellers and Sublicensees the right to modify *** and distribute such modifications in Object Code Form only and only as bundled or incorporated with the Licensee Products to End Users.

Licensee is granted no right to further distribute the Licensed Software, or a portion thereof, in Source Code Form. Licensee, its Resellers and Sublicensees are granted no right hereunder to distribute the Licensed Software, or a portion thereof, on a standalone basis.

Confidential Materials omitted and filed separately with the Securities and Exchange Commission. Asterisks denote omissions.

2.2(d). Subject to Licensee and an Escrow Agent entering into the Escrow Agreement (attached hereto and made part of the Agreement as Exhibit F) or a substantially similar Escrow Agreement, Licensee shall have the right to place the Licensed Software in Source Code Form (and the relating documentation), excluding any third party software, in an escrow account. Such escrow account shall be maintained and controlled at Licensee's sole expense and direction, and Spyglass shall have no obligation to make deposits into the escrow account, including the deposits of any Updates, Upgrades, modifications or enhancements to the Licensed Software. Licensee shall, in accordance with the requirements of the Licensee Report set forth in Section 5.4 of the Agreement, report to Spyglass each Reseller and Sublicensee named as a beneficiary in such escrow agreement. The Licensed Software may be released from escrow for the benefit of Licensee's Resellers and/or Sublicensees only in the event of: (1) a receiver, trustee in bankruptcy or similar officer is appointed to take charge of all of Licensee's property; (2) Licensee files a voluntary petition under federal bankruptcy laws or similar state statutes or such petition is filed against Licensee and is not dismissed within sixty (60) days; or (3) a change of control of Licensee's *** (or its successor organization within Licensee's business organization) occurs when a competitor of a reported beneficiary (either a Reseller or Sublicensee) acquires a controlling interest in such Licensee's Group and such reported beneficiary's/(ies') support or interests are adversely affected due to such change in control as demonstrated by specific facts; provided that: (i) the Licensed Software in Source Code Form is released from escrow for the sole purpose of allowing those Resellers and/or Sublicensees who have been reported to Spyglass as beneficiaries the ability to support the Licensee Products for their then-current customers/End Users, (ii) the Licensed Software in Source Code Form is only released from escrow when the Licensee Products in Source Code Form are also released, and (iii) Licensee notifies Spyglass as soon as Licensee becomes aware of an event that could result in the release of the Licensed Software from escrow.

2.2(e). Spyglass agrees to permit Licensee to provide any Reseller or Sublicensee with any of the development documentation

of Spyglass as identified in Exhibit G for the purpose of permitting such Reseller or Sublicensee to use the development documentation to develop Reseller or Sublicensee application products for use with the Licensee Products, provided a written confidentiality agreement is executed between Licensee and each Reseller or Sublicensee to keep the confidential portions of the development documentation of Spyglass confidential for a period of at least three (3) years in accordance with terms otherwise at least as protective as those of Section 8 of the Agreement. Spyglass agrees to reasonably consider adding further Spyglass documentation to Exhibit G as appropriate to assist with the creation of such Reseller or Sublicensee application products."

3. Section 5.3 Additional License Fees shall be deleted and replaced in its entirety with the following new Section 5.3 Additional License Fees:

Confidential Materials omitted and filed separately with the Securities and Exchange Commission. Asterisks denote omissions.

"5.3 Additional License Fees: Upon Licensee exhausting the number of copies of the Licensed Software acquired in the Initial Purchase Commitments in Exhibits B and B-1, Licensee shall pay Spyglass on a calendar quarterly basis, concurrent with the Licensee Report set forth in Section 5.4, the following:

(i) a Per Copy Fee equivalent to the Per Copy Fee which, in Exhibit B, corresponds to the accumulated number of copies of the Licensed Software, and derivative works thereof, distributed by Licensee, its Resellers and Sublicensees, and

(ii) a Per Copy Fee equivalent to the Per Copy Fee which, in Exhibit B-1, corresponds to the accumulated number of copies of the Licensed Software, and derivative works thereof, distributed by Licensee, its Resellers and Sublicensees.

The above calculations are based upon a one-to-one ratio of distribution of Licensed Software identified in Exhibit A to the distribution of the Licensed Software identified in Exhibit A-1.

4. Section 5.4 Licensee Report shall be amended to add the following new subsection (iv):

"(iv) and the names and addresses of each Reseller and Sublicensee who has been named as a beneficiary by Licensee in an escrow agreement providing such Reseller and/or Sublicensee access to the Licensed Software in Source Code Form."

5. The last sentence of Exhibit B, Section A (2), is hereby deleted in its entirety.

6. Exhibits A and B shall be amended to add, as attachments, the Exhibits A-1 and B-1, respectively, attached hereto.

7. The Additional Deliverable A identified in the attachment, Exhibit A-1, shall be considered Spyglass' Confidential Information whether or not it is marked as "confidential" in writing.

8. The Additional Deliverable A identified in the attachment, Exhibit A-1, shall be included under the Exhibit C, Technical Support Services, at *** Technical Support Services Fees for the period commencing on the Amendment Date through December 15, 1998, at which time, Licensee may elect for the parties to negotiate in good faith an amendment to the Technical Support Services covering the fee for such services for the Additional Deliverable A or Spyglass shall cease providing such support.

9. Exhibit C, Technical Support Services, Section 1.1, in subsection (iv), the word "Hellcat" is hereby deleted and replaced with the word "Blackbird" (or subsequent commercial brand name therefor).

10. Exhibit C, Technical Support Services, Section 2.1, subsection (d), the word "Hellcat" is hereby deleted and replaced with the word "Blackbird" (or subsequent commercial brand name therefor).

11. Exhibit D, Licensee Product, is hereby amended to delete and replace in its entirety the existing Licensee Product description with the following new Licensee Product description:

"Licensee Product: Any Motorola, Inc. ***. Products that represent substantial deviations from this common architecture and its future generation enhancements shall be considered additional Licensee Products."

12. Unless otherwise modified or amended herein, all other terms and conditions of the Agreement and the Exhibits thereto, shall apply to the Additional Deliverable A as "Licensed Software" in the same manner they apply to the Licensed Software identified in the Agreement; and the parties' rights and obligations thereunder remain in full force and effect.

13. This Amendment shall become a part of the Agreement and shall be read together with the Agreement as a single document. To the extent that there are any conflicts between the terms and conditions of the Agreement and the terms and conditions of this Amendment, the terms and conditions of this Amendment shall control.

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed by the duly authorized representatives. By executing below, the parties agree to amend the Agreement as noted herein.

SPYGLASS, INC.

MOTOROLA, INC.

By: /s/Gary Vilchick

By: /s/ Ray Burgess

Name: Gary Vilchick

Name: Ray Burgess

Title: Executive V.P. CFO

Title: VP & Gen Mgr,
IES

Date: 9/30/98

Date: 9/30/98

EXHIBIT A-1
(Attachment to Exhibit A)

DELIVERABLES

This Exhibit A-1 is incorporated in its entirety as part of the Agreement.

Additional Deliverable:

A. Spyglass Device Mail Version 1.0 in Source Code Form for the VxWorks operating environment

Delivery Dates:

On or before September 30, 1998.

Licensed Spyglass Trademarks:

Spyglass Trademarks:

Spyglass[Registered Trademark] Device Mail

The Additional Deliverable A is hereby added to the Agreement and included in the definition of "Licensed Software".

Confidential Materials omitted and filed separately with the Securities and Exchange Commission. Asterisks denote omissions.

EXHIBIT B-1
LICENSE FEE SCHEDULE
(for Device Mail)

This Exhibit B-1 is incorporated in its entirety as part of the Agreement.

A) Spyglass Device Mail

(1) Technology Access Fee - Device Mail: ***

(2) Initial Purchase Commitment - Device Mail: ***,
includes *** Copies as follows:

of Copies
***/Per Copy = ***

Initial Purchase Commitment: ***
Due ***

(3) Per Copy Fee for Additional License Fees for Device Mail

# of Copies	Per Copy Fee	Payment
***	***	

(4) Technology Access Fees, Initial Purchase Commitment and Per Copy Fees are due on a Per Licensee Product basis. Products that represent substantial deviations from the common architecture of the Licensee Product identified in Exhibit D shall be considered additional Licensee Products and are subject to the then-current Spyglass pricing for each additional Licensee Product added to Exhibit D.

Exhibit F
Preferred Escrow Agreement Introduction

DSI's Preferred arrangement offers the flexibility of a modifiable contract combined with premium protection for both the depositor and the beneficiary. This advanced escrow can be precisely tailored to accommodate various circumstances.

In addition to our Technology Protection services, DSI's Preferred customers benefit from these unique features:

- _ Technical Verification options
- _ Tailored release conditions

_ Written notification detailing the contents of the deposit and each update

_ Semi-annual account histories listing all deposit activity

For additional benefits, you can choose DSI's Comprehensive Preferred addendum and receive these additional features:

_ Recurring Level I Technical Verification

_ Continual Depositrack Service

_ Unlimited updates/replacements and one additional storage unit

Because we recognize that various situations require different levels of service and protection, DSI offers our customers a wide array of options. Our specialized agreements include SAFE, FlexSAFE, Preferred and Comprehensive Preferred. Master agreements are also available to simplify and standardize your escrow arrangements.

Please consult your DSI representative to select an agreement and develop an escrow program that meets your individual needs.

PREFERRED ESCROW AGREEMENT

Account Number _____

This Agreement is effective _____, 19____ among Data Securities International, Inc. ("DSI"), _____ ("Depositor") and _____ ("Preferred Beneficiary"), who collectively may be referred to in this Agreement as "the parties."

A. Depositor and Preferred Beneficiary have entered or will enter into a license agreement, development agreement, and/or other agreement regarding certain proprietary technology of Depositor (referred to in this Agreement as "the license agreement").

B. Depositor desires to avoid disclosure of its proprietary technology except under certain limited circumstances.

C. The availability of the proprietary technology of Depositor

is critical to Preferred Beneficiary in the conduct of its business and, therefore, Preferred Beneficiary needs access to the proprietary technology under certain limited circumstances.

D. Depositor and Preferred Beneficiary desire to establish an escrow with DSI to provide for the retention, administration and controlled access of the proprietary technology materials of Depositor.

E. The parties desire this Agreement to be supplementary to the license agreement pursuant to 11 United States [Bankruptcy] Code, Section 365(n).

ARTICLE 1 -- DEPOSITS

1.1 Obligation to Make Deposit. Upon the signing of this Agreement by the parties, Depositor shall deliver to DSI the proprietary information and other materials ("deposit materials") required to be deposited by the license agreement or, if the license agreement does not identify the materials to be deposited with DSI, then such materials will be identified on an Exhibit A. If Exhibit A is applicable, it is to be prepared and signed by Depositor and Preferred Beneficiary. DSI shall have no obligation with respect to the preparation, signing or delivery of Exhibit A.

1.2 Identification of Tangible Media. Prior to the delivery of the deposit materials to DSI, Depositor shall conspicuously label for identification each document, magnetic tape, disk, or other tangible media upon which the deposit materials are written or stored. Additionally, Depositor shall complete Exhibit B to this Agreement by listing each such tangible media by the item label description, the type of media and the quantity. The Exhibit B must be signed by Depositor and delivered to DSI with the deposit materials. Unless and until Depositor makes the initial deposit with DSI, DSI shall have no obligation with respect to this Agreement, except the obligation to notify the parties regarding the status of the deposit account as required in Section 2.2 below.

1.3 Deposit Inspection. When DSI receives the deposit materials and the Exhibit B, DSI will conduct a deposit inspection by visually matching the labeling of the tangible media containing the deposit materials to the item descriptions and quantity listed on the Exhibit B. In addition to the deposit inspection, Preferred Beneficiary may elect to cause a verification of the deposit materials in accordance with Section 1.6 below.

1.4 Acceptance of Deposit. At completion of the deposit inspection, if DSI determines that the labeling of the tangible media matches the item descriptions and quantity on Exhibit B,

DSI will date and sign the Exhibit B and mail a copy thereof to Depositor and Preferred Beneficiary. If DSI determines that the labeling does not match the item descriptions or quantity on the Exhibit B, DSI will (a) note the discrepancies in writing on the Exhibit B; (b) date and sign the Exhibit B with the exceptions noted; and (c) provide a copy of the Exhibit B to Depositor and Preferred Beneficiary. DSI's acceptance of the deposit occurs upon the signing of the Exhibit B by DSI. Delivery of the signed Exhibit B to Preferred Beneficiary is Preferred Beneficiary's notice that the deposit materials have been received and accepted by DSI.

1.5 Depositor's Representations. Depositor represents as follows:

a. Depositor lawfully possesses all of the deposit materials deposited with DSI;

b. With respect to all of the deposit materials, Depositor has the right and authority to grant to DSI and Preferred Beneficiary the rights as provided in this Agreement;

c. The deposit materials are not subject to any lien or other encumbrance;

d. The deposit materials consist of the proprietary information and other materials identified either in the license agreement or Exhibit A, as the case may be; and

e. The deposit materials are readable and useable in their current form or, if the deposit materials are encrypted, the decryption tools and decryption keys have also been deposited.

1.6 Verification. Preferred Beneficiary shall have the right, at Preferred Beneficiary's expense, to cause a verification of any deposit materials. A verification determines, in different levels of detail, the accuracy, completeness, sufficiency and quality of the deposit materials. If a verification is elected after the deposit materials have been delivered to DSI, then only DSI, or at DSI's election an independent person or company selected and supervised by DSI, may perform the verification.

1.7 Deposit Updates. Unless otherwise provided by the license agreement, Depositor shall update the deposit materials within 60 days of each release of a new version of the product which is subject to the license agreement. Such updates will be added to the existing deposit. All deposit updates shall be listed on a new Exhibit B and the new Exhibit B shall be signed by Depositor. Each Exhibit B will be held and maintained separately within the escrow account. An independent record will be created which will

document the activity for each Exhibit B. The processing of all deposit updates shall be in accordance with Sections 1.2 through 1.6 above. All references in this Agreement to the deposit materials shall include the initial deposit materials and any updates.

1.8 Removal of Deposit Materials. The deposit materials may be removed and/or exchanged only on written instructions signed by Depositor and Preferred Beneficiary, or as otherwise provided in this Agreement.

ARTICLE 2 -- CONFIDENTIALITY AND RECORD KEEPING

2.1 Confidentiality. DSI shall maintain the deposit materials in a secure, environmentally safe, locked facility which is accessible only to authorized representatives of DSI. DSI shall have the obligation to reasonably protect the confidentiality of the deposit materials. Except as provided in this Agreement, DSI shall not disclose, transfer, make available, or use the deposit materials. DSI shall not disclose the content of this Agreement to any third party. If DSI receives a subpoena or other order of a court or other judicial tribunal pertaining to the disclosure or release of the deposit materials, DSI will immediately notify the parties to this Agreement. It shall be the responsibility of Depositor and/or Preferred Beneficiary to challenge any such order; provided, however, that DSI does not waive its rights to present its position with respect to any such order. DSI will not be required to disobey any court or other judicial tribunal order. (See Section 7.5 below for notices of requested orders.)

2.2 Status Reports. DSI will issue to Depositor and Preferred Beneficiary a report profiling the account history at least semi-annually. DSI may provide copies of the account history pertaining to this Agreement upon the request of any party to this Agreement.

2.3 Audit Rights. During the term of this Agreement, Depositor and Preferred Beneficiary shall each have the right to inspect the written records of DSI pertaining to this Agreement. Any inspection shall be held during normal business hours and following reasonable prior notice.

ARTICLE 3 -- GRANT OF RIGHTS TO DSI

3.1 Title to Media. Depositor hereby transfers to DSI the title to the media upon which the proprietary information and materials are written or stored. However, this transfer does not include the ownership of the proprietary information and materials contained on the media such as any copyright, trade secret,

patent or other intellectual property rights.

3.2 Right to Make Copies. DSI shall have the right to make copies of the deposit materials as reasonably necessary to perform this Agreement. DSI shall copy all copyright, nondisclosure, and other proprietary notices and titles contained on the deposit materials onto any copies made by DSI. With all deposit materials submitted to DSI, Depositor shall provide any and all instructions as may be necessary to duplicate the deposit materials including but not limited to the hardware and/or software needed.

3.3 Right to Transfer Upon Release. Depositor hereby grants to DSI the right to transfer the deposit materials to Preferred Beneficiary upon any release of the deposit materials for use by Preferred Beneficiary in accordance with Section 4.5. Except upon such a release or as otherwise provided in this Agreement, DSI shall not transfer the deposit materials.

ARTICLE 4 -- RELEASE OF DEPOSIT

4.1 Release Conditions. As used in this Agreement, "Release Conditions" shall mean the following:

a. A change of control of Depositor's Entertainment & Imaging Group (or its successor organization within Depositor's business organization). A change of control occurs when a competitor of a Preferred Beneficiary (either a Reseller or Sublicensee who has been reported to Spyglass) acquires a controlling interest in such Depositor's Group and such reported beneficiary's/(ies') support or interests are adversely affected due to such change in control as demonstrated by specific facts; or

b. Depositor's failure to continue to do business in the ordinary course.

4.2 Filing For Release. If Preferred Beneficiary believes in good faith that a Release Condition has occurred, Preferred Beneficiary may provide to DSI written notice of the occurrence of the Release Condition and a request for the release of the deposit materials. Upon receipt of such notice, DSI shall provide a copy of the notice to Depositor, by certified mail, return receipt requested, or by commercial express mail.

4.3 Contrary Instructions. From the date DSI mails the notice requesting release of the deposit materials, Depositor shall have ten business days to deliver to DSI Contrary Instructions. "Contrary Instructions" shall mean the written representation by Depositor that a Release Condition has not occurred or has been cured. Upon receipt of Contrary Instructions, DSI shall send a

copy to Preferred Beneficiary by certified mail, return receipt requested, or by commercial express mail. Additionally, DSI shall notify both Depositor and Preferred Beneficiary that there is a dispute to be resolved pursuant to the Dispute Resolution section (Section 7.3) of this Agreement. Subject to Section 5.2, DSI will continue to store the deposit materials without release pending (a) joint instructions from Depositor and Preferred Beneficiary; (b) resolution pursuant to the Dispute Resolution provisions; or (c) order of a court.

4.4 Release of Deposit. If DSI does not receive Contrary Instructions from the Depositor, DSI is authorized to release the deposit materials to the Preferred Beneficiary or, if more than one beneficiary is registered to the deposit, to release a copy of the deposit materials to the Preferred Beneficiary. However, DSI is entitled to receive any fees due DSI before making the release. This Agreement will terminate upon the release of the deposit materials held by DSI.

4.5 Right to Use Following Release. Unless otherwise provided in the license agreement, upon release of the deposit materials in accordance with this Article 4, Preferred Beneficiary shall have the right to use the deposit materials for the sole purpose of continuing the benefits afforded to Preferred Beneficiary by the license agreement. Preferred Beneficiary shall be obligated to maintain the confidentiality of the released deposit materials.

ARTICLE 5 -- TERM AND TERMINATION

5.1 Term of Agreement. The initial term of this Agreement is for a period of one year. Thereafter, this Agreement shall automatically renew from year-to-year unless (a) Depositor and Preferred Beneficiary jointly instruct DSI in writing that the Agreement is terminated; or (b) the Agreement is terminated by DSI for nonpayment in accordance with Section 5.2. If the deposit materials are subject to another escrow agreement with DSI, DSI reserves the right, after the initial one year term, to adjust the anniversary date of this Agreement to match the then prevailing anniversary date of such other escrow arrangements.

5.2 Termination for Nonpayment. In the event of the nonpayment of fees owed to DSI, DSI shall provide written notice of delinquency to all parties to this Agreement. Any party to this Agreement shall have the right to make the payment to DSI to cure the default. If the past due payment is not received in full by DSI within one month of the date of such notice, then DSI shall have the right to terminate this Agreement at any time thereafter by sending written notice of termination to all parties. DSI shall have no obligation to take any action under this Agreement

so long as any payment due to DSI remains unpaid.

5.3 Disposition of Deposit Materials Upon Termination. Upon termination of this Agreement by joint instruction of Depositor and Preferred Beneficiary, DSI shall destroy, return, or otherwise deliver the deposit materials in accordance with Depositor's instructions. Upon termination for nonpayment, DSI may, at its sole discretion, destroy the deposit materials or return them to Depositor. DSI shall have no obligation to return or destroy the deposit materials if the deposit materials are subject to another escrow agreement with DSI.

5.4 Survival of Terms Following Termination. Upon termination of this Agreement, the following provisions of this Agreement shall survive:

- a. Depositor's Representations (Section 1.5);
- b. The obligations of confidentiality with respect to the deposit materials;
- c. The rights granted in the sections entitled Right to Transfer Upon Release (Section 3.3) and Right to Use Following Release (Section 4.5), if a release of the deposit materials has occurred prior to termination;
- d. The obligation to pay DSI any fees and expenses due;
- e. The provisions of Article 7; and
- f. Any provisions in this Agreement which specifically state they survive the termination or expiration of this Agreement.

ARTICLE 6 -- DSI'S FEES

6.1 Fee Schedule. DSI is entitled to be paid its corporate fees which have been previously negotiated with Depositor.

6.2 Payment Terms. DSI shall not be required to perform any service unless the payment for such service and any outstanding balances owed to DSI are paid in full. All other fees are due upon receipt of invoice. If invoiced fees are not paid, DSI may terminate this Agreement in accordance with Section 5.2. Late fees on past due amounts shall accrue at the rate of one and one-half percent per month (18% per annum) from the date of the invoice.

ARTICLE 7 -- LIABILITY AND DISPUTES

7.1 Right to Rely on Instructions. DSI may act in reliance upon

any instruction, instrument, or signature reasonably believed by DSI to be genuine. DSI may assume that any employee of a party to this Agreement who gives any written notice, request, or instruction has the authority to do so. DSI shall not be responsible for failure to act as a result of causes beyond the reasonable control of DSI.

7.2 Indemnification. DSI shall be responsible to perform its obligations under this Agreement and to act in a reasonable and prudent manner with regard to this escrow arrangement. Provided DSI has acted in the manner stated in the preceding sentence, Depositor and Preferred Beneficiary each agree to indemnify, defend and hold harmless DSI from any and all claims, actions, damages, arbitration fees and expenses, costs, attorney's fees and other liabilities incurred by DSI relating in any way to this escrow arrangement.

7.3 Dispute Resolution. Any dispute relating to or arising from this Agreement shall be resolved by arbitration under the Commercial Rules of the American Arbitration Association. Unless otherwise agreed by Depositor and Preferred Beneficiary, arbitration will take place in San Diego, California, U.S.A. Any court having jurisdiction over the matter may enter judgment on the award of the arbitrator(s). Service of a petition to confirm the arbitration award may be made by First Class mail or by commercial express mail, to the attorney for the party or, if unrepresented, to the party at the last known business address.

7.4 Controlling Law. This Agreement is to be governed and construed in accordance with the laws of the State of California, without regard to its conflict of law provisions.

7.5 Notice of Requested Order. If any party intends to obtain an order from the arbitrator or any court of competent jurisdiction which may direct DSI to take, or refrain from taking any action, that party shall:

a. Give DSI at least two business days' prior notice of the hearing;

b. Include in any such order that, as a precondition to DSI's obligation, DSI be paid in full for any past due fees and be paid for the reasonable value of the services to be rendered pursuant to such order; and

c. Ensure that DSI not be required to deliver the original (as opposed to a copy) of the deposit materials if DSI may need to retain the original in its possession to fulfill any of its other duties.

ARTICLE 8 -- GENERAL PROVISIONS

8.1 Entire Agreement. This Agreement, which includes the Exhibits described herein, embodies the entire understanding among the parties with respect to its subject matter and supersedes all previous communications, representations or understandings, either oral or written. No amendment or modification of this Agreement shall be valid or binding unless signed by all the parties hereto, except that Exhibit A need not be signed by DSI, Exhibit B need not be signed by Preferred Beneficiary and Exhibit C need not be signed.

8.2 Notices. All notices, invoices, payments, deposits and other documents and communications shall be given to the parties at the addresses specified in the attached Exhibit C. It shall be the responsibility of the parties to notify each other as provided in this Section in the event of a change of address. The parties shall have the right to rely on the last known address of the other parties. Unless otherwise provided in this Agreement, all documents and communications may be delivered by First Class mail.

8.3 Severability. In the event any provision of this Agreement is found to be invalid, voidable or unenforceable, the parties agree that unless it materially affects the entire intent and purpose of this Agreement, such invalidity, voidability or unenforceability shall affect neither the validity of this Agreement nor the remaining provisions herein, and the provision in question shall be deemed to be replaced with a valid and enforceable provision most closely reflecting the intent and purpose of the original provision.

8.4 Successors. This Agreement shall be binding upon and shall inure to the benefit of the successors and assigns of the parties. However, DSI shall have no obligation in performing this Agreement to recognize any successor or assign of Depositor or Preferred Beneficiary unless DSI receives clear, authoritative and conclusive written evidence of the change of parties.

_____	_____
Depositor	Preferred Beneficiary
By:	By:
_____	_____
Name: _____	Name: _____
_____	_____
Title: _____	Title: _____
_____	_____
Date: _____	Date: _____

Data Securities International, Inc.

By: _____

Name: _____

Title: _____

Date: _____

EXHIBIT A

MATERIALS TO BE DEPOSITED

Account Number _____

Depositor represents to Preferred Beneficiary that deposit materials delivered to DSI shall consist of the following:

_____	_____
Depositor	Preferred Beneficiary
By:	By:
_____	_____
Name: _____	Name: _____
_____	_____
Title: _____	Title: _____
_____	_____
Date: _____	Date: _____

EXHIBIT B

DESCRIPTION OF DEPOSIT MATERIALS

Depositor Company Name _____
Account Number _____

PRODUCT DESCRIPTION:
Product Name _____ Version _____
Operating System _____

Hardware Platform _____

DEPOSIT COPYING INFORMATION:

Hardware required: _____

Software required: _____

DEPOSIT MATERIAL DESCRIPTION:

Qty	Media Type & Size	Label Description of Each Separate Item (excluding documentation)
-----	-------------------	---

_____ Disk 3.5" or _____

_____ DAT tape _____mm

_____ CD-ROM

_____ Data cartridge tape _____

_____ TK 70 or _____ tape

_____ Magnetic tape _____

_____ Documentation

_____ Other _____

I certify for Depositor that the above described _____ DSI
 has inspected and accepted the above
 deposit materials have been transmitted to DSI:
 materials (any exceptions are noted
 above):

Signature _____

Print Name _____

Date _____

Signature _____

Print Name _____

Date Accepted _____

Exhibit B# _____

Send materials to: DSI, 9555 Chesapeake Dr. #200, San Diego, CA
92123

EXHIBIT C

DESIGNATED CONTACT

Account Number _____

Notices, deposit material
returns and
communications to Depositor
should be addressed to:

Invoices to Depositor should be
addressed to:

Company Name:
Address:

Designated Contact:
Telephone:
Facsimile:

Contact:

Notices and communications to
Preferred Beneficiary should be
addressed to:

Invoices to Preferred
Beneficiary
should be addressed to:

Company Name:
Address:

Designated Contact:
Telephone:
Facsimile:

Contact:

Requests from Depositor or Preferred Beneficiary to change the
designated contact should be given in writing by the designated
contact or an authorized employee of Depositor or Preferred
Beneficiary.

Contracts, deposit materials Invoice inquiries and fee
and notices to remittances DSI should be addressed to:

DSI
Contract Administration
Suite 200
9555 Chesapeake Drive
San Diego, CA 92123

DSI
Accounts Receivable
Suite 1450
425 California Street
San Francisco, CA 94104

Telephone: (619) 694-1900
Facsimile: (619) 694-1919

(415) 398-7900
(415) 398-7914

Date: _____

Confidential Materials omitted and filed separately with the
Securities and Exchange Commission. Asterisks denote
omissions.

Exhibit G

Confidential Materials omitted and filed separately with the Securities and Exchange Commission. Asterisks denote omissions.

COMMON STOCK AND WARRANT PURCHASE AGREEMENT

This Agreement is entered into as of October 19, 1998 (the "Effective Date") between Spyglass, Inc., a Delaware corporation having a principal place of business at 1240 E. Diehl Road, 4th Floor, Naperville, IL 60563 (the "Company"), and General Instrument Corporation, a Delaware corporation having a place of business at 101 Tournament Drive, Horsham, Pennsylvania 19044 (the "Purchaser"). The Company and the Purchaser are hereinafter sometimes referred to individually as a "Party" and collectively as the "Parties."

WHEREAS, contemporaneously with the execution of this Agreement, the Company and the Purchaser are entering into a Digital Software Integration Center Sourcing Agreement (the "Sourcing Agreement");

WHEREAS, contemporaneously with the execution of this Agreement, the Company has organized Spyglass DSIC, Inc. (the "Subsidiary") for the purpose of operating and managing a Digital Software Integration Center in accordance with the terms of the Sourcing Agreement:

WHEREAS, contemporaneously with the execution of this Agreement, the Company, the Subsidiary and the Purchaser are entering into an Operating Agreement for the purpose of establishing certain rights and obligations with respect to the Subsidiary; and

WHEREAS, the Company and the Purchaser desire to enter into this Agreement for the purpose of providing for the purchase and sale of certain securities of the Company and establishing certain rights and obligations with respect to such securities;

NOW, THEREFORE, in consideration of the mutual promises and covenants contained in this Agreement and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Purchaser, each intending to be legally bound, hereby agree as follows:

1. Purchase and Sale of Securities.

- 1.1 Purchase and Sale of Shares. Subject to the terms and conditions of this Agreement, at the Closing (as defined below) the Company will issue and sell to the Purchaser, and the Purchaser will purchase, 700,000 shares of common stock, \$.01 par value per share, of the Company ("Common Stock") for the purchase price of \$10.56 per share. The shares of Common Stock being sold under this Agreement

are referred to as the "Shares."

1.2 Warrants. The Company will issue to the Purchaser at the Closing three warrants, covering a total of 700,000 shares of Common Stock, which warrants shall be in the form attached hereto as Exhibit A, Exhibit B and Exhibit C, respectively (the "Warrants").

2. The Closing. The closing ("Closing") of the transactions contemplated by this Agreement shall take place at the offices of Hale and Dorr LLP, 60 State Street, Boston, Massachusetts at 10:00 a.m. (or at such other time and place as may be agreed by the Parties) on the date of this Agreement (the "Closing Date"). At the Closing:

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(1) the Company shall deliver to the Purchaser a certificate, as of the most recent practicable date, as to the corporate good standing of the Company issued by the Secretary of State of the State of Delaware;

(2) the Company shall deliver to the Purchaser the Certificate of Incorporation of the Company, as amended and in effect as of the Closing Date, certified by the Secretary of State of the State of Delaware;

(3) the Company shall deliver to the Purchaser a certificate of the Secretary of the Company certifying as to the Company's By-laws and resolutions of the Company's Board of Directors relating to the issuance and sale of the Shares and the Warrants;

(4) the Company shall deliver to the Purchaser a certificate for the Shares being purchased by the Purchaser, registered in the name of the Purchaser and dated as of the Closing date;

(5) the Purchaser shall pay to the Company the purchase price for the Shares, by wire transfer of immediately available funds;

(6) the Company and the Purchaser shall execute and deliver a Cross-Receipt with respect to the purchase and sale of the Shares;

(7) the Company shall execute and deliver to the Purchaser the Warrants; and

(8) the Company shall deliver to the Purchaser an opinion of counsel in substantially the form attached hereto as Exhibit D.

3. Representations of the Company. The Company hereby

represents and warrants to the Purchaser as follows:

3.1 Organization and Standing. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. The Company is duly qualified to do business as a foreign corporation and is in good standing in any jurisdiction in which the failure to so qualify would have a material adverse effect on the business, properties, assets, operations or condition (financial or otherwise) of the Company.

3.2 Capitalization. The authorized capital stock of the Company at the Closing will consist of (a) 50,000,000 shares of common stock, \$.01 par value per share, of which 13,935,007 shares were issued and outstanding as of the close of business on October 13, 1998, and (b) 2,000,000 shares of Preferred Stock, \$.01 par value per share, none of which are issued or outstanding. All of the issued and outstanding shares of capital stock of the Company have been duly authorized and validly issued and are fully paid and nonassessable. The Company has not issued or granted any options, warrants or other securities exercisable for or convertible into capital stock of the Company, except pursuant to the employee and/or director stock plans described in, or as otherwise disclosed in, the

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Company Reports (as defined in Section 3.5 below). All of the Shares, and all of the shares of Common Stock issued upon exercise of the Warrants (the "Warrant Shares"), will be, when issued in accordance with this Agreement or the Warrants, as the case may be, duly authorized, validly issued, fully paid and nonassessable.

3.3 Authorization of Transaction. The Company has all requisite power and authority to execute and deliver this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement by the Company and the consummation of the transactions contemplated hereby by the Company have been duly and validly authorized by all necessary corporate action on the part of the Company. The issuance, sale and delivery of the Shares in accordance with this Agreement, and the issuance and delivery of the shares of Common Stock issuable upon exercise of the Warrants, have been duly authorized by all necessary corporate action on the part of the Company, and all such shares have been duly reserved for issuance. This Agreement has been duly and validly executed and delivered by the Company and constitutes a valid and binding obligation of the Company, enforceable against it in accordance with its terms.

3.4 Noncontravention. Neither the execution and delivery of this Agreement by the Company, nor the consummation by the Company of the transactions contemplated hereby, will (a) conflict with or violate any provision of the Certificate of Incorporation or By-laws

of the Company, (b) require on the part of the Company any filing with, or permit, authorization, consent or approval of, any governmental entity, (c) conflict with, result in breach of, constitute a default under, or require any notice, consent or waiver under, any contract, agreement or other instrument to which the Company is a party or by which it is bound (other than any consent or waiver which has already been obtained), or (d) violate any order, writ, injunction, decree, statute, rule or regulation applicable to the Company.

3.5 Reports and Financial Statements. The Company has previously furnished or made available to the Purchaser complete and accurate copies, as amended or supplemented, of its (i) Annual Report on Form 10-K for the fiscal year ended September 30, 1997, as filed with the Securities and Exchange Commission (the "SEC"), (ii) its Quarterly Reports on Form 10-Q for the quarter ended December 31, 1997, March 31, 1998 and June 30, 1998, as filed with the SEC, (iii) its Current Report on Form 8-K dated November 14, 1997, as amended by a Form 8-K/A dated December 23, 1997, as filed with the SEC and (iv) all other reports or statements filed by the Company with the SEC since September 30, 1997 (such reports and statements are collectively referred to herein as the "Company Reports"). The Company Reports constitute all of the documents required to be filed by the Company under Section 13 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), with the SEC since September 30, 1997. As of their respective dates, the Company Reports did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited financial statements and unaudited interim financial statements of the Company included in the Company Reports (i) comply as to form in all material respects with

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applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, (ii) have been prepared in accordance with generally accepted accounting principles applied on a consistent basis throughout the periods covered thereby (except as may be indicated therein or in the notes thereto, and in the case of quarterly financial statements, as permitted by Form 10-Q under the Exchange Act), (iii) fairly present the consolidated financial condition, results of operations and cash flows of the Company as of the respective dates thereof and for the periods referred to therein, and (iv) are consistent with the books and records of the Company.

3.6 Absence of Material Adverse Changes. Except as disclosed by the Company to the Purchaser prior to the date hereof, since June 30, 1998, there has not been any material adverse change in the assets, business, financial condition or results of operations of the Company.

3.7 Litigation. Except as may be disclosed in the Company Reports, there is no action, suit or proceeding, or governmental inquiry or investigation, pending, or, to the best of the Company's knowledge, following reasonable inquiry, any threat thereof, against the Company, which questions the validity of this Agreement or the right of the Company to enter into it, or which might result, either individually or in the aggregate, in any material adverse change in the assets, business, financial condition or results of operations of the Company.

3.8 Compliance with Laws. The Company, its properties and assets, and the operation of its business as currently conducted, do not violate any law, rule or regulation applicable to them, or violate any judgment, writ, injunction, decree or order of any court, governmental agency or regulatory body, except for any violation which would not reasonably be expected to have a material adverse effect on the business, properties, assets, operations or condition (financial or otherwise) of the Company.

4. Representations of the Purchaser. The Purchaser represents and warrants to the Company as follows:

4.1 Organization and Standing. The Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware.

4.2 Authorization of Transaction. The Purchaser has all requisite power and authority to execute and deliver this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement by the Purchaser and the consummation of the transactions contemplated hereby by the Purchaser have been duly and validly authorized by all necessary corporate action on the part of the Purchaser. This Agreement has been duly and validly executed and delivered by the Purchaser and constitutes a valid and binding obligation of the Purchaser, enforceable against it in accordance with its terms.

4.3 Noncontravention. Neither the execution and delivery of this Agreement by the Purchaser, nor the consummation by the Purchaser of the transactions contemplated hereby, will (a) conflict with or violate any provision of the Certificate of Incorporation or

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By-laws of the Purchaser, (b) require on the part of the Purchaser any filing with, or permit, authorization, consent or approval of, any governmental entity, (c) conflict with, result in breach of, constitute a default under, or require any notice, consent or waiver under, any contract, agreement or other instrument to which the Purchaser is a party or by which it is bound (other than any consent

or waiver which has already been obtained), or (d) violate any order, writ, injunction, decree, statute, rule or regulation applicable to the Purchaser.

4.4 Investment Matters.

(1) The Purchaser is purchasing the Shares and the Warrants, and will purchase the Warrant Shares, for its own account for investment only, and not with a view to, or for sale in connection with, any distribution of such securities in violation of the Securities Act of 1933, as amended (the "Securities Act"), or any rule or regulation under the Securities Act.

(2) The Purchaser has had such opportunity as it has deemed adequate to obtain from representatives of the Company such information as is necessary to permit it to evaluate the merits and risks of its investment in the Company.

(3) The Purchaser has sufficient experience in business, financial and investment matters to be able to evaluate the risks involved in the purchase of the Shares, the Warrants and the Warrant Shares and to make an informed investment decision with respect to such purchase.

(4) The Purchaser can afford a complete loss of the value of the Shares and is able to bear the economic risk of holding the Shares for an indefinite period.

(5) The Purchaser understands that (i) neither the Shares, the Warrants nor the Warrant Shares have been registered under the Securities Act and they are "restricted securities" within the meaning of Rule 144 under the Securities Act, (ii) neither the Shares, the Warrants nor the Warrant Shares can be sold, transferred or otherwise disposed of unless they are subsequently registered under the Securities Act or an exemption from registration is then available; (iii) in any event, the exemption from registration under Rule 144 or otherwise may not be available for at least one year and even then will not be available unless the terms and conditions of Rule 144 are complied with; and (iv) there is now no registration statement on file with the Securities and Exchange Commission with respect to the Shares, the Warrants or the Warrant Shares and the Company has no obligation or current intention to register such securities under the Securities Act.

(6) A legend substantially in the following form may be placed on the certificate representing the Shares, the Warrants and the Warrant Shares:

"The shares represented by this certificate have not been registered under the Securities Act of 1933, as amended, and may not be sold, transferred or otherwise disposed of in the absence of an effective

Confidential Materials omitted and filed separately with the Securities and Exchange Commission. Asterisks denote omissions.

satisfactory to the corporation to the effect that such registration is not required."

(7) The Purchaser is an "accredited investor" as that term is defined in Rule 501 of Regulation D promulgated under the Securities Act.

(8) During the 30-day period immediately preceding the date of this Agreement, the Purchaser has not (i) bought or sold any shares of Common Stock or any "put" or "call" options or other derivative securities with respect thereto, (ii) made any "short sales" of shares of Common Stock or (iii) otherwise taken, directly or indirectly, any action to manipulate or affect the market price of the Common Stock.

5. Covenants of the Company.

5.1 Inspection. So long as the Purchaser (or any of its Affiliates, as defined below) holds at least 25% of the Shares originally issued pursuant to this Agreement, the Company shall (a) permit the Purchaser, or any authorized representative thereof, to visit and inspect the properties of the Company, including its corporate and financial records, and to discuss its business and finances with officers of the Company, at least twice per year following reasonable notice, subject to the confidentiality obligations of Section 9.2 hereof, and (b) provide the Purchaser, as well as any registered holder of the Warrants, with copies of all reports filed by the Company with the SEC or otherwise distributed generally to its stockholders. For purposes of this Agreement, an "Affiliate" of a party means any person or entity that controls, is controlled by, or is under common control with, such party.

5.2 Reservation of Common Stock. The Company shall reserve and maintain a sufficient number of shares of Common Stock for issuance upon exercise of the Warrants.

6. Transfer of Securities.

6.1 Restriction on Transfer. The Purchaser may not sell, transfer or otherwise dispose of any of the Shares, or any other shares of capital stock of the Company issued in respect of the Shares (as a result of stock splits, stock dividends, reclassifications, recapitalizations, or similar events), without the

prior written consent of the Company, during the *** period following the date of this Agreement. Notwithstanding the foregoing, this restriction on transfer shall terminate upon the consummation of (i) a merger, consolidation, reorganization, recapitalization or tender offer involving the Company, immediately following which the individuals and entities who were the beneficial owners of the Common Stock of the Company immediately prior to such transaction beneficially own, directly or indirectly, less than 60% of the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors of the Company or the resulting or acquiring corporation in such transaction, (ii) the sale of all or substantially all of the assets of the Company, or (iii) the acquisition by any of the companies listed on Exhibit C to the Operating Agreement of beneficial ownership (within the meaning of Section 13(d) of the Securities Exchange Act of 1934) of shares of

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common stock of the Company representing 20% or more of the outstanding common stock of Spyglass (a "Spyglass Change in Control").

6.2 Restricted Securities.

(1) "Restricted Securities" means the Shares and any other shares of capital stock of the Company issued in respect of the Shares (as a result of stock splits, stock dividends, reclassifications, recapitalizations, or similar events); provided, however, that shares of Common Stock which are Restricted Securities shall cease to be Restricted Securities (i) upon any sale pursuant to a registration statement under the Securities Act, Section 4(1) of the Securities Act or Rule 144 under the Securities Act, or (ii) at such time as they become eligible for sale under Rule 144(k) under the Securities Act.

(2) Restricted Securities shall not be sold or transferred unless either (a) they first shall have been registered under the Securities Act, or (b) the Company first shall have been furnished with an opinion of legal counsel, reasonably satisfactory to the Company, to the effect that such sale or transfer is exempt from the registration requirements of the Securities Act.

7. Indemnification.

7.1 Indemnification by the Company. The Company shall defend, indemnify and hold harmless the Purchaser, its Affiliates and each of their respective employees, officers and directors against

any losses, claims, damages or liabilities (including reasonable attorneys' fees and amounts paid in settlement) to which they may become subject as a result of any breach by the Company of a representation, warranty or covenant of the Company contained in this Agreement. Any party seeking to assert rights to indemnification under this Section 7.1 shall give the Company prompt written notification of any loss, claim, damage or liability for which indemnification may be sought; shall give the Company the opportunity to assume the defense of any lawsuit or other proceeding relating thereto; and shall not settle or consent to an entry of judgment with respect to any such matter without the prior written consent of the Company, which consent shall not be unreasonably withheld.

7.2 Survival. The indemnification provided in this Section 7 shall survive the Closing and continue for a period of *** thereafter.

8. Registration Rights.

8.1 Definitions. For purposes of this Section 8:

(1) "Eligible Shares" means (i) the Shares, (ii) any shares of Common Stock issued or issuable upon the exercise of the Warrants and (iii) any other shares of common stock issued in respect of any such shares as a result of stock splits, stock dividends, reclassifications, recapitalizations, mergers or similar events; provided, however, that shares which are Eligible Shares shall cease to be Eligible Shares upon (i) any sale pursuant to a registration statement under the Securities Act or Rule 144 under the Securities

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Act or (ii) becoming eligible for sale by the holder thereof pursuant to Rule 144(k) under the Securities Act.

(2) "Registration Statement" means a registration statement filed by the Company with the SEC for a public offering and sale of securities of the Company (other than a registration statement on Form S-8 or Form S-4, or their successors, or any other form for a similar limited purpose, or any registration statement covering only securities proposed to be issued in exchange for securities or assets of another corporation).

(3) "Holder" means the Purchaser or any other person or entity holding or having the right to acquire Eligible Shares to which rights under this Section 8 are transferred in accordance with Section 8.8.

(4) "Selling Stockholder" means a Holder whose Eligible Shares are included in a Registration Statement pursuant to this Section 8.

8.2 Registration of Eligible Shares of Eligible Shares.

(1) At any time after the first anniversary of the Closing Date, or upon a Spyglass Change in Control, Holders may submit to the Company a written request (a "Registration Request") that the Company file a Registration Statement under the Securities Act covering Eligible Shares held by them which represent at least 20% of the Eligible Shares then outstanding (or a lesser percentage if the anticipated aggregate offering price, net of underwriting discounts and commissions, would exceed \$500,000). Such Registration Request shall state the intended manner of sale or other disposition of such Eligible Shares (including whether such Eligible Shares are to be sold in an underwritten offering). Within 10 days after receipt of a Registration Request, the Company shall give written notice of such proposed registration to all Holders. Such Holders shall have the right to have included in such Registration Statement such of their Eligible Shares as such Holders may request in a written notice delivered to the Company within 20 days after receipt of the Company's notice referred to in the preceding sentence. Promptly following the expiration of such 20-day period, the Company shall use its best efforts to effect, as expeditiously as possible and in any event within 90 days after the expiration of such 20-day period, the registration under the Securities Act of all Eligible Shares which the Company has been requested to so register, in order to permit the public sale or other disposition of such Eligible Shares in the manner specified in the Registration Request.

(2) Whenever the Company proposes to file, after the first anniversary of the Closing Date, a Registration Statement covering shares of its Common Stock (other than a Registration Statement filed pursuant to Section 8.2(a)), it will, prior to such filing, give written notice to all Holders of its intention to do so, which notice shall state whether such the shares to be offered by the Company are to be sold in an underwritten offering. Such Holders shall have the right to have included in such Registration Statement such of their Eligible Shares as such Holders may request in a written notice delivered to the Company within 20 days after receipt of the Company's notice referred to in the preceding sentence. The Company

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shall use its best efforts to effect the registration under the Securities Act of all Eligible Shares which the Company has been requested to so register, in order to permit the public sale or other disposition of such Eligible Shares in the manner specified in the notice by the Company to such Holders; provided that the Company shall have the right to postpone or withdraw any registration effected pursuant to this Section 8.2(b) without obligation to any Holder.

(3) If any registration effected pursuant to this Section 8.2 relates to an underwritten offering

- (1) any Holder including Eligible Shares in such registration shall, as a condition to including their Eligible Shares in such registration, agree to be bound by the terms and restrictions relating to such offering, as required by the underwriters; and
- (2) notwithstanding any other provision of this Section 8, if the managing underwriter determines that the inclusion in such registration of all Eligible Shares requested to be registered under this Section 8.2 would jeopardize the success of the offering, the Company may limit the number of shares of Common Stock (including Eligible Shares) to be included in such registration by selling stockholders, with the number of such shares of Common Stock (if any) included in such registration allocated among all selling stockholders requesting registration in proportion, as nearly as practicable, to the respective number of shares of Common Stock held by such selling stockholders.

(4) Notwithstanding the other provisions of this Section 8.2, the Company shall not be required to effect the registration under the Securities Act of Eligible Shares requested by the Holder thereof to be registered pursuant to this Section 8.2 if, at the time of such request, all such Eligible Shares may be immediately sold by such Holder pursuant to Rule 144 under the Securities Act without exceeding the volume limitations in paragraph (e) of Rule 144.

8.3 Registration Procedures. If and whenever the Company is required by the provisions of this Section 8 to use its best efforts to effect the registration of any Eligible Shares under the Securities Act, the Company shall:

(1) prepare and file with the SEC a Registration Statement with respect to such Eligible Shares and use its best efforts to cause that Registration Statement to become effective;

(2) prepare and file with the SEC any amendments and supplements to such Registration Statement and the prospectus included in such Registration Statement as may be necessary to comply with the provisions of the Securities Act (including the anti-fraud provisions thereof) and to keep such Registration Statement effective

for 120 days from the effective date or until all such Eligible Shares covered thereby have been sold;

(3) subject to the provisions of Section 8.4, upon the happening of any event which results in such Registration Statement containing an untrue statement of a material fact or omitting to state a material fact required to be stated therein, the Company shall promptly notify the Selling Stockholders of such occurrence and shall prepare and file with the SEC, as promptly as practicable thereafter, a supplement or amendment to such Registration Statement so that it will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein not misleading. If the Company has delivered preliminary or final prospectuses to the Selling Stockholders and after having done so the prospectus is amended or supplemented pursuant to this paragraph, the Company shall promptly notify the Selling Stockholders and, if requested by the Company, the Selling Stockholders shall immediately cease making offers or sales of shares under such Registration Statement and return all prospectuses to the Company. The Company shall promptly provide the Selling Stockholders with revised prospectuses and, following receipt of the revised prospectuses, the Selling Stockholders shall be free to resume making offers and sales under such Registration Statement;

(4) furnish to each Selling Stockholder such reasonable numbers of copies of the Prospectus, including any preliminary Prospectus, in conformity with the requirements of the Securities Act;

(5) use its best efforts to register or qualify the Eligible Shares covered by such Registration Statement under the securities or Blue Sky laws of such states as the Selling Stockholders shall reasonably request, provided, however, that the Company shall not be required in connection with this paragraph (e) to qualify as a foreign corporation or execute a general consent to service of process in any jurisdiction;

(6) as expeditiously as possible following the effectiveness of such Registration Statement, notify each seller of such Eligible Shares of any request by the SEC for the amending or supplementing of such Registration Statement or Prospectus; and

(7) in the case of an underwritten offering, furnish, at the request of any Holder, on the date such Eligible Shares are delivered to the underwriters for sale in connection with such Registration Statement pursuant to this Section 8, (i) an opinion of counsel representing the Company for the purpose of such registration, addressed to the underwriters, dated such date, in form and substance customarily given by company counsel in underwritten public offerings, and (ii) a letter from the independent certified public accountants of the Company, dated such date, in form and

substance customarily given by independent certified public accountants in underwritten public offerings.

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8.4 Limitations on Registration Rightson Registration Rights.

(1) The Company shall not be required to effect more than three registrations pursuant to Section 8.2(a) above. In addition, the Company shall not be required to file any Registration Statement under Section 8.2 within the earlier to occur of (i) 180 days after the filing of any other Registration Statement by the Company or (ii) 120 days after the effective date of any other Registration Statement filed by the Company.

(2) The Company may, by written notice to the Holders whose Eligible Shares are included or are to be included in a Registration Statement pursuant to Section 8.2, (i) delay (for a period not to exceed 90 days) the filing or effectiveness of such Registration Statement or (ii) suspend (for a period not to exceed 90 days) such Registration Statement after effectiveness and require that the Selling Stockholders immediately cease (for a period not to exceed 90 days) sales of shares pursuant to such Registration Statement, in the event that (A) the Company is preparing to file a Registration Statement with the SEC for a public offering of its securities, subject to the rights of the Holders to include Eligible Shares in such registration statement, as provided in Section 8.2, or (B) the Company is engaged in any activity or transaction or preparations or negotiations for any activity or transaction and the Board of Directors of the Company determines in good faith that the filing of such Registration Statement (or the public disclosure required as a result thereof) would have a material adverse effect on such activity or transaction, or the preparations or negotiations therefor.

(3) If the Company delays or suspends a Registration Statement or requires Selling Stockholders to cease sales of shares pursuant to paragraph (b) above, the Company shall, as promptly as practicable following the termination of the circumstance which entitled the Company to do so, take such actions as may be necessary to file or reinstate the effectiveness of such Registration Statement and/or give written notice to all Selling Stockholders authorizing them to resume sales pursuant to such Registration Statement. If as a result thereof the prospectus included in such Registration Statement has been amended to comply with the requirements of the Securities Act, the Company shall enclose such revised prospectus with the notice to Selling Stockholders given pursuant to this paragraph (c), and the Selling Stockholders shall make no offers or sales of shares pursuant to such Registration Statement other than by means of such revised prospectus.

8.5 Requirements of Selling Stockholders of Selling Stockholders.

(1) The Company shall not be required to include any Eligible Shares in a Registration Statement unless the Selling Stockholder owning such shares furnishes to the Company in writing such information regarding such Selling Stockholder and the proposed sale of Eligible Shares by such Selling Stockholder as the Company may reasonably request in writing in connection with such Registration Statement or as shall be required in connection therewith by the SEC or any state securities law authorities.

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(2) Each Holder shall:

(1) indemnify the Company and each of its directors and officers against, and hold the Company and each of its directors and officers harmless from, any losses, claims, damages, expenses or liabilities (including reasonable attorneys fees) to which the Company or such directors and officers may become subject by reason of any statement or omission in a Registration Statement made in reliance upon, or in conformity with, written information furnished by such Holder pursuant to this Section 8.5; and

(2) report to the Company sales made pursuant to a Registration Statement.

8.6 Indemnification. The Company agrees to indemnify and hold harmless each Selling Stockholder, each of its directors and officers, any other person who controls (within the meaning of the Securities Act or the Securities Exchange Act of 1934) such Selling Stockholder, and any underwriter for such Selling Stockholder, against any losses, claims, damages, expenses or liabilities to which they may become subject by reason of any untrue statement or alleged untrue statement of a material fact contained in a Registration Statement or any omission or alleged omission to state therein a fact required to be stated therein or necessary to make the statements therein not misleading, or any violation or alleged violation of law by the Company in connection with the registration of the Eligible Shares of such Selling Stockholder, except insofar as such losses, claims, damages, expenses or liabilities arise out of or are based upon information furnished to the Company by or on behalf of a Selling Stockholder for use in such Registration Statement. In addition, the Company shall reimburse any such indemnified party for any legal or other expenses reasonable incurred by them in connection with investigating or defending any such losses, claims, damages, expenses or liabilities. The Company shall have the right to assume the defense and settlement of any claim or suit for which the Company may be responsible for indemnification under this Section 8.6.

8.7 Expenses. The Company will pay all expenses incurred by the Company in complying with this Agreement, including, without limitation, all registration and filing fees with the SEC or the National Association of Securities Dealers, Inc., state Blue Sky fees and expenses, printing expenses, and the fees and expenses of counsel and auditors for the Company, but excluding (i) underwriting discounts and selling commissions applicable to the sale of the Eligible Shares and (ii) the fees and expenses of counsel for the Selling Stockholders.

8.8 Assignment of Rights of Rights. The Purchaser may not assign any of its rights under this Section 8 except in connection with the transfer of at least 20% of the Eligible Shares then outstanding, provided that, prior to the effectiveness of such assignment, such transferee must agree in a written instrument delivered to the Company to be bound by the provisions of this Section 8.

9. Miscellaneous.

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9.1 Successors and Assigns. This Agreement, and the rights and obligations of the parties hereunder, shall be binding upon their successors and assigns.

9.2 Confidentiality. The Purchaser agrees that it will keep confidential and will not disclose or divulge any confidential, proprietary or secret information which the Purchaser may obtain from the Company pursuant to financial statements, reports and other materials submitted by the Company to the Purchaser pursuant to this Agreement, or pursuant to visitation or inspection rights granted hereunder, unless such information is known, or until such information becomes known, to the public; provided, however, that the Purchaser may disclose such information (i) to its attorneys, accountants, consultants and other professionals to the extent necessary to obtain their services in connection with its investment in the Company, (ii) to any prospective purchaser of any Shares from the Purchaser as long as such prospective purchaser agrees in writing to be bound by the provisions of this Section, or (iii) to any Affiliate of the Purchaser; subject to the agreement of such party to keep such information confidential as set forth herein.

9.3 Survival of Representations, Warranties and Covenants. All representations and warranties contained herein shall survive the execution and delivery of this Agreement and the Closing and continue for a period of two years after the Closing. All covenants shall survive indefinitely, except as limited in accordance with their terms.

9.4 Notices. All notices, requests, consents, and other

communications under this Agreement shall be in writing and in the English language, and shall be delivered by any lawful means, to the following address:

If to the Company, at Spyglass, Inc., One Cambridge Center, Cambridge, Massachusetts 02142, Attn: Chief Financial Officer, or at such other address or addresses as may have been furnished in writing by the Company to the Purchaser; or

If to the Purchaser, at 101 Tournament Drive, Horsham, Pennsylvania 19044, Attn: Executive Vice President, Business Development, with a copy to the Senior Vice President and General Counsel, or at such other address or addresses as may have been furnished in writing by the Purchaser to the Company.

Any such notices, requests, consents and other communications shall be deemed delivered upon receipt by the addressee.

9.5 Entire Agreement. This Agreement embodies the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings relating to such subject matter.

9.6 Amendments and Waivers. Except as otherwise expressly set forth in this Agreement, any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), with the written consent of the Company and the Purchaser. Any amendment or waiver effected in

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Accordance with this Section 9.6 shall be binding upon each holder of any Shares (including shares of Common Stock into which such Shares have been converted), each future holder of all such securities and the Company. No waivers of or exceptions to any term, condition or provision of this Agreement, in any one or more instances, shall be deemed to be, or construed as, a further or continuing waiver of any such term, condition or provision.

9.7 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which shall be one and the same document.

9.8 Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

9.9 Costs and Expenses. Except as provided in Section 8.7, all costs and expenses (including without limitation fees and expenses of attorneys, brokers, agents or finders) incurred by any

Party in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such costs and expenses, whether or not the transactions contemplated by this Agreement are consummated.

9.10 Titles. The section headings of this Agreement are for convenience of reference only and shall not be considered in construing this Agreement.

9.11 Cooperation. Each Party shall, at the request and expense of the other Party, at any time and from time to time following the execution of this Agreement, execute and deliver to the other Party such further instruments and take such further administrative and ministerial actions as may be reasonably necessary or appropriate to carry out the purposes and intent of this Agreement.

9.12 No Third Party Beneficiaries. Nothing expressed or implied in this Agreement or shall be construed to confer upon any person or entity, other than the Parties and their respective successors and permitted assigns, any rights or remedies under or in connection with this Agreement.

9.13 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware.

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IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their duly authorized representatives as of the Effective Date.

SPYGLASS, INC.

By: /s/ Michael F. Tyrrell

GENERAL INSTRUMENT CORPORATION

By: /s/ Richard C. Smith

Richard C. Smith
(print name and title)

Confidential Materials omitted and filed separately with the Securities and Exchange Commission. Asterisks denote omissions.

EXHIBIT A

THIS WARRANT AND THE SHARES OF COMMON STOCK ISSUED UPON ITS EXERCISE ARE SUBJECT TO THE RESTRICTIONS ON TRANSFER SET FORTH IN SECTION 5 OF THIS WARRANT

Date of Issuance: October 19, 1998 Number of Shares: ***
(subject to adjustment)

SPYGLASS, INC.

Common Stock Purchase Warrant

Spyglass, Inc., a Delaware corporation (the "Company"), for value received, hereby certifies that General Instrument Corporation (the "Registered Holder") is entitled, subject to the terms set forth below, to purchase from the Company, at any time or from time to time on or after the date of issuance and on or before 5:00 p.m. (Boston, Massachusetts time) on the Expiration Date (as defined below), *** shares of Common Stock, \$.01 par value per share, of the Company, at a purchase price of *** per share. The shares purchasable upon exercise of this Warrant, and the purchase price per share, each as adjusted from time to time pursuant to the provisions of this Warrant, are hereinafter referred to as the "Warrant Shares" and the "Purchase Price," respectively. The "Expiration Date" shall mean December 31, 2003, or (if applicable) such later date as is provided for in Section 1(c) below.

1. Vesting Schedule.

(a) This Warrant will become exercisable ("vest") as to all of the Warrant Shares on October 1, 2003.

(b) Notwithstanding the foregoing vesting schedule, this Warrant shall become immediately vested in full on the date (the "Acceleration Date") 10 days following the date (if any) on which the Registered Holder has paid to the Company (or a subsidiary or affiliate (as defined in Rule 405 under the Securities Act of 1933) of the Company) an aggregate of *** under the Digital Software Integration Center Sourcing Agreement dated October 19, 1998 between the Company and the Registered Holder (the "Sourcing Agreement").

(c) In the event that any of the companies listed on Exhibit C to the Operating Agreement dated October 19, 1998 between the Company, the Registered Holder and Spyglass DSIC, Inc. (the "Operating Agreement") acquire beneficial ownership (within the meaning of Section 13(d) of the Securities Exchange Act of 1934) of shares of Common Stock of the Company representing 20% or more of the outstanding Common Stock of the Company and either (i) the Registered Holder exercises its right to terminate the Sourcing Agreement or (ii) the Registered Holder exercises its purchase option under the Operating Agreement, this Warrant shall become immediately vested in full.

(d) In the event of the acceleration of vesting of this Warrant under Section 1(b) or 1(c) above, the Expiration Date shall be the later of December 31, 2003 and the date three years following the Acceleration Date.

2. Exercise.

(a) This Warrant may be exercised by the Registered Holder, in whole or in part, by surrendering this Warrant, with the purchase form appended hereto as Exhibit I duly executed by such Registered Holder, at the principal office of the Company, or at such other office or agency as the Company may designate, accompanied by payment in full, in lawful money of the United States, of the Purchase Price payable in respect of the number of Warrant Shares purchased upon such exercise.

(b) Each exercise of this Warrant shall be deemed to have been effected immediately prior to the close of business on the day on which this Warrant shall have been surrendered to the Company as provided in Section 2(a) above. At such time, the person or persons in whose name or names any certificates for Warrant Shares shall be issuable upon such exercise as provided in Section 2(c) below shall be deemed to have become the holder or holders of record of the Warrant Shares represented by such certificates.

(c) As soon as practicable after the exercise of this Warrant in full or in part, the Company, at its expense, will cause to be issued in the name of, and delivered to, the Registered Holder, or as such Holder (upon payment by such Holder of any applicable transfer taxes) may direct:

(i) a certificate or certificates for the number of full Warrant Shares to which the Registered Holder shall be entitled upon such exercise plus, in lieu of any fractional share to which the Registered Holder would otherwise be entitled, cash in an amount determined pursuant to Section 4 hereof; and

(ii) in case such exercise is in part only, a new warrant or warrants (dated the date hereof) of like tenor, calling in the aggregate on the face or faces thereof for the number of Warrant Shares equal (without giving effect to any adjustment therein) to the number of such shares called for on the face of this Warrant minus the number of such shares purchased by the Registered Holder upon such exercise.

(d) The Company shall be responsible for any and all taxes arising from the granting and/or exercise of this Warrant (other than taxes on the transfer of this Warrant or on the income of the Registered Holder), including, but not limited to, all documentary and stamp taxes.

3. Antidilution Provisions.

3.1 Adjustment of Number of Shares Purchasable. Upon any adjustment of the Purchase Price as provided in Section 3.2(a), the Registered Holder shall thereafter be entitled to purchase, at the Purchase Price resulting from such adjustment, the number of Warrant Shares (calculated to the nearest 1/100th of a share) obtained by multiplying the Purchase Price in effect immediately prior to such adjustment by the number of Warrant Shares purchasable hereunder immediately prior to such adjustment and dividing the product thereof by the Purchase Price resulting from such adjustment.

3.2 Adjustment of Purchase Price. The Purchase Price shall be subject to adjustment from time to time as hereinafter set forth.

(a) Stock Dividends, Subdivisions and Combinations. In the event that the Company subsequent to the date hereof shall:

(i) declare a dividend upon, or make any distribution in respect of, any of its Common Stock, payable in Common Stock, Convertible Securities or Stock Purchase Rights, or

(ii) subdivide its outstanding shares of Common Stock into a larger number of shares of Common Stock, or

(iii) combine its outstanding shares of Common Stock into a smaller number of shares of Common Stock, then the Purchase Price shall be adjusted to that price determined by multiplying the Purchase Price per share of Common Stock immediately prior to such event by a fraction (A) the numerator of which shall be the total number of outstanding shares of Common Stock of the Company immediately prior to such event and (B) the denominator of which shall be the total number of outstanding shares of Common Stock of the Company immediately after such event. For purposes of this Section 3.2, all shares of Common Stock issuable upon conversions or exchanges of Convertible Securities and exercises of Stock Purchase

Rights shall be treated as outstanding. "Convertible Securities" means evidences of indebtedness, shares of stock or other

Confidential Materials omitted and filed separately with the Securities and Exchange Commission. Asterisks denote omissions.

securities which are convertible into or exchangeable for, with or without payment of additional consideration, shares of Common Stock, either immediately or upon the arrival of a specified date or the happenings of a specified event. "Stock Purchase Rights" means any warrants, options or other rights to subscribe for, purchase or otherwise acquire any shares of Common Stock or any Convertible Securities.

(b) Issuance of Additional Shares of Common Stock.

In the event that the Company shall issue or sell any shares of Common Stock after the date hereof for a consideration less than *** of the then Fair Value (as defined below) per share immediately prior to such issue or sale, the Purchase Price in effect immediately prior to such issuance or sale shall be adjusted by: multiplying the then existing Purchase Price by a fraction the numerator of which is (A) the sum of (1) the number of shares of Common Stock outstanding immediately prior to such issue or sale multiplied by the Fair Value per share of Common Stock immediately prior to such issue or sale plus (2) the consideration received by the Company upon such issue or sale, divided by (B) the total number of shares of Common Stock outstanding immediately after such issue or sale, and the denominator of which shall be the Fair Value per share of Common Stock immediately prior to such issue or sale.

The provisions of this Subsection (b) shall not apply to any shares of Common Stock which are distributed to holders of Common Stock pursuant to a stock dividend or subdivision for which an adjustment is provided for under Subsection (a) of this Section 3.2.

No adjustment of the Purchase Price shall be made under this Subsection upon the issuance of any shares of Common Stock which are issued pursuant to the exercise of any Stock Purchase Rights or pursuant to the conversion or exchange of any Convertible Securities if an adjustment shall previously have been made upon the issuance of such Stock Purchase Rights or Convertible Securities pursuant to Subsection (a), (c) or (d) of this Section 3.2.

For purposes of this Warrant, "Fair Value" per share of Common Stock means the following:

(i) if the Common Stock is listed on a national securities exchange, the Nasdaq National Market or another nationally recognized exchange or trading system as of the date on which a determination of Fair Value is to be made, the Fair Value per share of Common Stock shall be deemed to be the last reported sale price per share of Common Stock thereon on the trading day immediately

preceding such date; and

(ii) if the Common Stock is not listed on a national securities exchange, the Nasdaq National Market or another nationally recognized exchange or trading system as of the date on which a determination of Fair Value is to be made, the Fair Value per share of Common Stock shall be as agreed upon by the Company and the Registered Holder.

Whenever the Company shall issue any of its Common Stock, Stock Purchase Rights or Convertible Securities as consideration for a merger, the purchase of stock or assets from or similar transaction with a bona fide third party, such shares will be deemed for all purposes hereunder to be issued for Fair Value.

(c) Issuance of Stock Purchase Rights. In the event that the Company shall issue or sell any Stock Purchase Rights and the consideration per share for which shares of Common Stock may at any time thereafter be issuable upon exercise thereof (or, in the case of Stock Purchase Rights exercisable for the purchase of Convertible Securities, upon the subsequent conversion or exchange of such Convertible Securities) shall be less than the Fair Value per share of Common Stock immediately prior to the issuance of such Stock Purchase Rights, the Purchase Price shall be adjusted as provided in Subsection (b) of this Section 3.2 on the basis that (i) the maximum number of shares of Common Stock issuable upon exercise of such Stock Purchase Rights (or upon conversion or exchange of such Convertible Securities following such exercise) shall be deemed to have been issued as of the date of the issuance of such Stock Purchase Rights as hereinafter provided and (ii) the aggregate consideration received for such shares of Common Stock shall be deemed to be the minimum consideration received or receivable by the Company in connection with the issuance and exercise of such Stock Purchase Rights (or upon conversion or exchange of such Convertible Securities). For the purposes of this Subsection (c), the date as of which such Stock Purchase Rights shall be deemed to be issued shall be the earlier of (A) the date on which the Company shall enter into a firm contract for the issuance of such Stock Purchase Rights, or (B) the date of actual issuance of such Stock Purchase Rights.

(d) Issuance of Convertible Securities. In the event that the Company shall issue or sell any Convertible Securities and the consideration per share for which shares of Common Stock may at any time thereafter be issuable pursuant to the terms of such Convertible Securities shall be less than the Fair Value per share of Common Stock immediately prior to the issuance of such Convertible Securities, the Purchase Price shall be adjusted as provided in Subsection (b) of this Section 3.2 on the basis that (i) the maximum number of shares of Common Stock issuable upon the conversion or exchange of all such Convertible Securities shall be deemed to have been issued as of the date of issuance of such Convertible Securities

as hereinafter provided and (ii) the aggregate consideration received for such shares of Common Stock shall be deemed to be equal to the minimum consideration received or receivable by the Company in connection with the issuance and conversion or exchange of such Convertible Securities. For the purposes of this Subsection (d), the date as of which such Convertible Securities shall be deemed to be issued shall be the earlier of (A) the date on which the Company shall enter into a firm contract for the issuance of such Convertible Securities, or (B) the date of actual issuance of such Convertible Securities. No adjustment of the Purchase Price shall be made under this Subsection upon the issuance of any Convertible Securities which are issued pursuant to the exercise of any Stock Purchase Rights, if an adjustment shall previously have been made upon the issuance of such Stock Purchase Rights pursuant to Subsection (c) of this Section 3.2.

(e) Minimum Adjustment. In the event any adjustment of the Purchase Price pursuant to this Section 3.2 shall result in an adjustment of less than \$.01 per share of Common Stock, no such adjustment shall be made, but any such lesser adjustment shall be carried forward and shall be made at the time and together with the next subsequent adjustment which, together with any adjustments so carried forward, shall amount to \$.01 or more per share of Common Stock; provided, however, that upon any adjustment of the Purchase Price pursuant to Subsection 3.2(a), the foregoing figure of \$.01 per share (or such figure last adjustment) shall be proportionately adjusted and provided further that upon the exercise of this Warrant, the Company shall make all necessary adjustments (to the nearest .001 of a cent) not theretofore made to the Purchase Price up to an including the date upon which this Warrant is exercised.

(f) Readjustment of Purchase Price and Warrant Shares. In the event (i) the purchase price payable for any Stock Purchase Rights or Convertible Securities referred to in Subsection (c) or (d) above, (ii) the additional consideration, if any, payable upon exercise of such Stock Purchase Rights or upon the conversion or exchange of such Convertible Securities or (iii) the rate at which any Convertible Securities are convertible into or exchangeable for shares of Common Stock shall change, the Purchase Price in effect at the time of such change shall forthwith be readjusted to the Purchase Price which would have been in effect at such time had such Stock Purchase Rights or Convertible Securities provided for such changed purchase price, additional consideration or conversion rate, as the case may be, at the time initially granted, issued or sold. On the expiration of any such Stock Purchase Rights not exercised or of any such Convertible Securities not converted or exchanged, the Purchase Price then in effect shall forthwith be increased to the Purchase Price which would have been in effect at the time of such expiration or termination had such Stock Purchase Rights or Convertible Securities never been issued. No readjustment of the Purchase Price pursuant to this Subsection (f) shall have the effect of increasing

the Purchase Price by an amount in excess of the adjustment originally made to the Purchase Price in respect of the issue, sale or grant of the applicable Stock Purchase Rights or Convertible Securities.

(g) Reorganization, Reclassification or Recapitalization of Company. In the event of (i) any capital reorganization or reclassification or recapitalization of the capital stock of the Company (other than in the cases referred to in Subsection (a) of this Section 3.2), or (ii) the consolidation or merger of the Company with or into another corporation or the sale or transfer of all or substantially all of the assets of the Company in which the Common Stock is converted into or exchanged for securities or other property, there shall thereafter be deliverable upon the exercise of this Warrant or any portion thereof the amount of securities or property which the holder of the number of shares of Common Stock which would otherwise have been deliverable upon the exercise of this Warrant or any portion thereof would have been entitled to receive upon such capital reorganization, reclassification, recapitalization, consolidation, merger or sale, and at the same aggregate Purchase Price.

Prior to and as a condition of the consummation of any transaction described in the preceding sentence, the Company shall make equitable, written adjustments in the application of the provisions herein set forth with respect to the rights and interests of the Registered Holder so that the provisions set forth herein shall thereafter be applicable, as nearly as possible, in relation to any securities or other property thereafter deliverable upon exercise of this Warrant. Any such adjustment shall be made by and set forth in a supplemental instrument executed by the Company and/or the successor entity, as applicable, which agreement shall bind each such entity.

(h) Other Dilutive Events. If any event shall occur as to which the other provisions of this Section 3 are not strictly applicable but as to which the failure to make an adjustment of the nature provided for in this Section 3 would not fairly protect the purchase rights represented by this Warrant in accordance with the essential intent and principles hereof, then, in each such case, the Company shall appoint a firm of independent public accountants of recognized national standing (which may be the regular auditors of the Company), which shall give their opinion as to the adjustment, if any, on a basis consistent with the essential intent and principles established in this Section 3, necessary to preserve, without dilution, the purchase rights represented by this Warrant. Upon receipt of such opinion, the Company will promptly mail a copy thereof to the Registered Holder and shall make the adjustments described therein.

(i) Determination of Consideration. For purposes of

this Section 3, the consideration received or receivable by the Company for the issuance, sale, grant or assumption of shares of Common Stock, Stock Purchase Rights or Convertible Securities, irrespective of the accounting treatment of such consideration, shall be valued as follows:

(1) Cash Payment. In the case of cash, the net amount received by the Company before deduction of any underwriting commissions or similar concessions paid or allowed by the Company.

(2) Securities or Other Property. In the case of securities or other property, the fair market value as determined in good faith by the Board of Directors of the Company; provided that a determination with respect to any securities for which a public trading market exists shall be based upon the most recent public trading price of such securities.

(3) Allocation Related to Common Stock. In the event shares of Common Stock are issued or sold together with other securities or other assets of the Company for a consideration which covers both, the consideration received (computed as provided in clauses (1) and (2) above) shall be allocable to such shares of Common Stock as determined in good faith by the Board of Directors of the Company.

(4) Allocation Related to Stock Purchase Rights and Convertible Securities. In the event that any Stock Purchase Rights or Convertible Securities shall be issued or sold together with other securities or other assets of the Company, together comprising one integral transaction in which no specific consideration is allocated to the Stock Purchase Rights or Convertible Securities, the consideration received shall be allocable to such Stock Purchase Rights and Convertible Securities as determined in good faith by the Board of Directors of the Company.

(5) Dividends on Securities. In the event that the Company shall declare a dividend or make any other distribution upon any stock of the Company (other than Common Stock) payable in either case in Common Stock, Convertible Securities or Stock Purchase Rights, such Common Stock, Convertible Securities or Stock Purchase Rights, as the case may be, issuable in payment of such dividend or distribution shall be deemed to have been issued or sold without consideration.

(6) Stock Purchase Rights and Convertible Securities. The consideration for which shares of Common Stock shall be deemed to be issued upon the issuance of any Stock Purchase Rights or Convertible Securities shall be determined by dividing (i) the total consideration, if any, received or receivable by the Company as consideration for the granting of such Stock Purchase Rights or the issuance of such Convertible Securities, plus the minimum aggregate

amount of additional consideration payable to the Company upon the exercise of such Stock Purchase Rights or the conversion or exchange of such Convertible Securities or, in the case of Stock Purchase Rights for Convertible Securities, the minimum aggregate amount of additional consideration, if any, payable upon the exercise of such Stock Purchase Rights and the conversion or exchange of such Convertible Securities, in each case before deducting any underwriting commissions or similar concessions paid or allowed by the Company, by (ii) the maximum number of shares of Common Stock issuable upon the exercise of such Stock Purchase Rights or upon the conversion or exchange of such Convertible Securities.

(j) Record Date. In the event that the Company shall take a record of the holders of the Common Stock for the purpose of entitling them (i) to receive a dividend or other distribution payable in Common Stock, Convertible Securities or Stock Purchase Rights or (ii) to subscribe for or purchase Common Stock, Convertible Securities or Stock Purchase Rights, then all references in this Section 3 to the date of the issue or sale of the shares of Common Stock deemed to have been issued or sold upon the declaration of such dividend or the making of such other distribution or the date of the granting of such right of subscription or purchase, as the case may be, shall be deemed to be references to such record date.

(k) Shares Outstanding. The number of shares of Common Stock deemed to be outstanding at any given time shall not include (i) shares of Common Stock in the treasury of the Company or owned by any wholly-owned subsidiary of the Company and (ii) except where shares are described on a "fully diluted basis" or in a similar manner, any of the Warrant Shares.

(l) Maximum Purchase Price. At no time shall the Purchase Price per share of Common Stock exceed the amount set forth in the first paragraph of the preamble of this Warrant except pursuant to adjustments made pursuant to Subsection (a) or (g) of this Section 3.2.

(m) Application. Except as otherwise provided herein, all Subsections of this Section 3.2 are intended to operate independently of one another, but without duplication. If an event occurs that requires the application of more than one Subsection, all applicable Subsections shall be given independent effect; provided, however, that no adjustment shall be made which duplicates an adjustment already made pursuant to some other Subsection of this Section 3.

(n) No Adjustments under Certain Circumstances. Anything herein to the contrary notwithstanding, the Company shall not be required to make any adjustment of the Purchase Price in the case of:

(i) the issuance of shares of Common Stock pursuant to a rights offering in which the Registered Holder is granted an opportunity to participate under the provisions of Section 3.3.; or

(ii) the issuance of options or shares of Common Stock to employees, directors or consultants pursuant to an employment agreement, a stock option agreement or a plan approved by the Board of Directors of the Company.

3.3 Rights Offering. In the event the Company shall effect an offering of Common Stock pro rata among its stockholders then the Registered Holder shall be entitled, at its option, to elect to participate in such offering as if this Warrant had been exercised and the Registered Holder were at the time of such rights offering a holder of that number of shares of Common Stock to which the Registered Holder is then entitled on the exercise hereof.

3.4 Certificates and Notices.

(a) Adjustments to Purchase Price. Upon any adjustment under this Section 3 of the number of shares of Common Stock purchasable upon exercise of this Warrant or of the Purchase Price, a certificate, signed (i) by a Vice President or the Treasurer of the Company, or (ii) by any independent firm of certified public accountants of recognized national standing selected by, and at the expense of the Company (which may be the Company's outside auditing firm), setting forth in reasonable detail the events requiring the adjustment and the method by which such adjustment was calculated and specifying the adjusted Purchase Price and the number of shares of Common Stock or other property purchasable upon exercise of this Warrant after giving effect to such adjustment, shall be mailed to the Registered Holder.

The certificate of any independent firm of certified public accountants of recognized national standing selected by the Board of Directors of the Company shall be conclusive evidence of the correctness of any computation made under this Section 3, absent manifest error.

(b) Extraordinary Corporate Events. In the event that the Company after the date hereof shall propose to (i) pay any dividend payable in stock to the holders of shares of Common Stock or to make any other distribution to the holders of shares of Common Stock (other than a stock split effected by means of a Common Stock dividend), (ii) offer to the holders of shares of Common Stock rights to subscribe for or purchase any shares of any class of stock or any other rights or options or (iii) effect any reclassification of the Common Stock (other than a reclassification involving merely the subdivision or combination of outstanding shares of Common Stock) or any capital reorganization or any consolidation or merger (other than

a merger in which no distribution of securities or other property is to be made to holders of shares of Common Stock), or any sale, transfer or other disposition of all or substantially all of its assets, or the liquidation, dissolution or winding up of the Company, then, in each such case, the Company shall mail to the Registered Holder notice of such proposed action, which shall specify the date on which the stock transfer books of the Company shall close, or a record shall be taken, for determining the holders of Common Stock entitled to receive such stock dividends or other distribution or such rights or options, or the date on which such reclassification, reorganization, consolidation, merger, sale, transfer, other disposition, liquidation, dissolution or winding up shall take place or commence, as the case may be, and the date as of which it is expected that holders of Common Stock of record shall be entitled to receive securities or other property deliverable upon such action, if any such date is to be fixed. Such notice shall be mailed in the case of any action covered by clause (i) or (ii) above at least 10 days prior to the record date for determining holders of Common Stock for purposes of receiving such payment or offer, or in the case of any action covered by clause (iii) above at least 30 days prior to the date upon which such action takes place and 20 days prior to any record date to determine holders of Common Stock entitled to receive such securities or other property.

(c) Effect of Failure. Failure to file any certificate or notice or to mail any notice, or any defect in any certificate or notice pursuant to this Section 3.4 shall not affect the legality or validity of the adjustment of the Purchase Price or the number of shares purchasable upon exercise of this Warrant, or any transaction giving rise thereto.

13. Fractional Shares. The Company shall not be required upon the exercise of this Warrant to issue any fractional shares, but shall make an adjustment therefor in cash on the basis of the fair market value per share of Common Stock, as determined in good faith by the Board of Directors of the Company.

14. Transfer Restrictions.

14.1 This Warrant may not be sold or transferred without the prior written consent of the Company, which shall not be unreasonably withheld; provided that the Company's consent shall not be required in the event of the sale of all or substantially all of the assets of the Registered Holder. Any permitted transfer shall be effected by surrendering this Warrant, along with a properly executed assignment, at the principal office of the Company.

14.2 The Warrant Shares may not be sold or transferred unless either (i) they first shall have been registered under the Securities Act of 1933, as amended (the "Act"), or (ii) the Company first shall have been furnished with an opinion of legal counsel,

reasonably satisfactory to the Company, to the effect that such sale or transfer is exempt from the registration requirements of the Act.

14.3 Each certificate representing Warrant Shares shall bear a legend substantially in the following form:

"The securities represented by this certificate have not been registered under the Securities Act of 1933, as amended, and may not be offered, sold or otherwise transferred unless and until such securities are registered under such Act or an opinion of counsel satisfactory to the Company is obtained to the effect that such registration is not required."

The foregoing legend shall be removed from the certificates representing any Warrant Shares, at the request of the holder thereof, at such time as they become eligible for resale pursuant to Rule 144(k) under the Act.

15. No Impairment. The Company will not, by amendment of its charter or through reorganization, consolidation, merger, dissolution, sale of assets or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant.

16. Liquidating Dividends. If the Company pays a dividend or makes a distribution on the Common Stock (other than one payable in (i) cash out of earnings or earned surplus (determined in accordance with generally accepted accounting principles) or (ii) shares of Common Stock) (a "Liquidating Dividend"), then the Company will pay or distribute to the Registered Holder of this Warrant, upon the exercise hereof, in addition to the Warrant Shares purchased upon such exercise, the Liquidating Dividend which would have been paid to such Registered Holder if he had been the owner of record of such Warrant Shares immediately prior to the date on which a record is taken for such Liquidating Dividend or, if no record is taken, the date as of which the record holders of Common Stock entitled to such dividends or distribution are to be determined.

17. Reservation of Stock. The Company will at all times reserve and keep available, solely for issuance and delivery upon the exercise of this Warrant, such number of Warrant Shares and other stock, securities and property, as from time to time shall be issuable upon the exercise of this Warrant.

18. Replacement of Warrants. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and (in the case of loss, theft or destruction) upon delivery of an indemnity agreement (with surety if reasonably required) in an amount reasonably satisfactory

to the Company, or (in the case of mutilation) upon surrender and cancellation of this Warrant, the Company will issue, in lieu thereof, a new Warrant of like tenor.

19. No Rights as Stockholder. Until the exercise of this Warrant, the Registered Holder of this Warrant shall not have or exercise any rights by virtue hereof as a stockholder of the Company.

Notwithstanding the foregoing, in the event (i) the Company effects a split of the Common Stock by means of a stock dividend and the exercise price of and the number of shares subject to this Warrant are adjusted as of the date of the distribution of the dividend (rather than as of the record date for such dividend), and (ii) the Registered Holder exercises this Warrant between the record date and the distribution date for such stock dividend, the Registered Holder shall be entitled to receive, on the distribution date, the stock dividend with respect to the shares of Common Stock acquired upon such exercise, notwithstanding the fact that such shares were not outstanding as of the close of business on the record date for such stock dividend.

20. Change or Waiver. Any term of this Warrant may be changed or waived only by an instrument in writing signed by the party against which enforcement of the change or waiver is sought.

21. Headings. The headings in this Warrant are for purposes of reference only and shall not limit or otherwise affect the meaning of any provision of this Warrant.

22. Governing Law. This Warrant will be governed by and construed in accordance with the laws of the State of Delaware.

[Remainder of Page Intentionally Left Blank]

Executed as of the date first written above.

SPYGLASS, INC.

By: _____

Title: _____

ATTEST:

PURCHASE FORM

To: _____

Dated: _____

The undersigned, pursuant to the provisions set forth in the attached Warrant (No. ___), hereby irrevocably elects to purchase _____ shares of the Common Stock covered by such Warrant. The undersigned herewith makes payment of \$_____, in lawful money of the United States, representing the full purchase price for such shares at the price per share provided for in such Warrant.

Signature: _____

Address: _____

Confidential Materials omitted and filed separately with the Securities and Exchange Commission. Asterisks denote omissions.

EXHIBIT B

THIS WARRANT AND THE SHARES OF COMMON STOCK ISSUED UPON ITS EXERCISE ARE SUBJECT TO THE RESTRICTIONS ON TRANSFER SET FORTH IN SECTION 5 OF THIS WARRANT

Date of Issuance: October 19, 1998 Number of Shares: ***
(subject to adjustment)

SPYGLASS, INC.

Common Stock Purchase Warrant

Spyglass, Inc., a Delaware corporation (the "Company"), for value received, hereby certifies that General Instrument Corporation (the "Registered Holder") is entitled, subject to the terms set forth below, to purchase from the Company, at any time or from time to time on or after the date of issuance and on or before 5:00 p.m. (Boston, Massachusetts time) on the Expiration Date (as defined below), ***

shares of Common Stock, \$.01 par value per share, of the Company, at a purchase price of *** per share. The shares purchasable upon exercise of this Warrant, and the purchase price per share, each as adjusted from time to time pursuant to the provisions of this Warrant, are hereinafter referred to as the "Warrant Shares" and the "Purchase Price," respectively. The "Expiration Date" shall mean December 31, 2003, or (if applicable) such later date as is provided for in Section 1(c) below.

1. Vesting Schedule.

(a) This Warrant will become exercisable ("vest") as to all of the Warrant Shares on October 1, 2003.

(b) Notwithstanding the foregoing vesting schedule, this Warrant shall become immediately vested in full on the date (the "Acceleration Date") 10 days following the date (if any) on which the Registered Holder has paid to the Company (or a subsidiary or affiliate (as defined in Rule 405 under the Securities Act of 1933) of the Company) an aggregate of *** under the Digital Software Integration Center Sourcing Agreement dated October 19, 1998 between the Company and the Registered Holder (the "Sourcing Agreement").

(c) In the event that any of the companies listed on Exhibit C to the Operating Agreement dated October 19, 1998 between the Company, the Registered Holder and Spyglass DSIC, Inc. (the "Operating Agreement") acquire beneficial ownership (within the meaning of Section 13(d) of the Securities Exchange Act of 1934) of shares of Common Stock of the Company representing 20% or more of the outstanding Common Stock of the Company and either (i) the Registered Holder exercises its right to terminate the Sourcing Agreement or (ii) the Registered Holder exercises its purchase option under the Operating Agreement, this Warrant shall become immediately vested in full.

(d) In the event of the acceleration of vesting of this Warrant under Section 1(b) or 1(c) above, the Expiration Date shall be the later of December 31, 2003 and the date three years following the Acceleration Date.

2. Exercise.

(a) This Warrant may be exercised by the Registered Holder, in whole or in part, by surrendering this Warrant, with the purchase form appended hereto as Exhibit I duly executed by such Registered Holder, at the principal office of the Company, or at such other office or agency as the Company may designate, accompanied by payment in full, in lawful money of the United States, of the Purchase Price payable in respect of the number of Warrant Shares purchased upon such exercise.

(b) Each exercise of this Warrant shall be deemed to have been effected immediately prior to the close of business on the day on which this Warrant shall have been surrendered to the Company as provided in Section 2(a) above. At such time, the person or persons in whose name or names any certificates for Warrant Shares shall be issuable upon such exercise as provided in Section 2(c) below shall be deemed to have become the holder or holders of record of the Warrant Shares represented by such certificates.

(c) As soon as practicable after the exercise of this Warrant in full or in part, the Company, at its expense, will cause to be issued in the name of, and delivered to, the Registered Holder, or as such Holder (upon payment by such Holder of any applicable transfer taxes) may direct:

(i) a certificate or certificates for the number of full Warrant Shares to which the Registered Holder shall be entitled upon such exercise plus, in lieu of any fractional share to which the Registered Holder would otherwise be entitled, cash in an amount determined pursuant to Section 4 hereof; and

(ii) in case such exercise is in part only, a new warrant or warrants (dated the date hereof) of like tenor, calling in the aggregate on the face or faces thereof for the number of Warrant Shares equal (without giving effect to any adjustment therein) to the number of such shares called for on the face of this Warrant minus the number of such shares purchased by the Registered Holder upon such exercise.

(d) The Company shall be responsible for any and all taxes arising from the granting and/or exercise of this Warrant (other than taxes on the transfer of this Warrant or on the income of the Registered Holder), including, but not limited to, all documentary and stamp taxes.

3. Antidilution Provisions.

3.1 Adjustment of Number of Shares Purchasable. Upon any adjustment of the Purchase Price as provided in Section 3.2(a), the Registered Holder shall thereafter be entitled to purchase, at the Purchase Price resulting from such adjustment, the number of Warrant Shares (calculated to the nearest 1/100th of a share) obtained by multiplying the Purchase Price in effect immediately prior to such adjustment by the number of Warrant Shares purchasable hereunder immediately prior to such adjustment and dividing the product thereof by the Purchase Price resulting from such adjustment.

3.2 Adjustment of Purchase Price. The Purchase Price shall be subject to adjustment from time to time as hereinafter set forth.

(a) Stock Dividends, Subdivisions and Combinations.
In the event that the Company subsequent to the date hereof shall:

(i) declare a dividend upon, or make any distribution in respect of, any of its Common Stock, payable in Common Stock, Convertible Securities or Stock Purchase Rights, or

(ii) subdivide its outstanding shares of Common Stock into a larger number of shares of Common Stock, or

(iii) combine its outstanding shares of Common Stock into a smaller number of shares of Common Stock,

then the Purchase Price shall be adjusted to that price determined by multiplying the Purchase Price per share of Common Stock immediately prior to such event by a fraction (A) the numerator of which shall be the total number of outstanding shares of Common Stock of the Company immediately prior to such event and (B) the denominator of which shall be the total number of outstanding shares of Common Stock of the Company immediately after such event. For purposes of this Section 3.2, all shares of Common Stock issuable upon conversions or exchanges of Convertible Securities and exercises of Stock Purchase Rights shall be treated as outstanding. "Convertible Securities" means evidences of indebtedness, shares of stock or other securities which are convertible into or exchangeable for, with or without payment of additional

Confidential Materials omitted and filed separately with the Securities and Exchange Commission. Asterisks denote omissions.

consideration, shares of Common Stock, either immediately or upon the arrival of a specified date or the happenings of a specified event. "Stock Purchase Rights" means any warrants, options or other rights to subscribe for, purchase or otherwise acquire any shares of Common Stock or any Convertible Securities.

(b) Issuance of Additional Shares of Common Stock.
In the event that the Company shall issue or sell any shares of Common Stock after the date hereof for a consideration less than *** of the then Fair Value (as defined below) per share immediately prior to such issue or sale, the Purchase Price in effect immediately prior to such issuance or sale shall be adjusted by: multiplying the then existing Purchase Price by a fraction the numerator of which is (A) the sum of (1) the number of shares of Common Stock outstanding immediately prior to such issue or sale multiplied by the Fair Value per share of Common Stock immediately prior to such issue or sale plus (2) the consideration received by the Company upon such issue or

sale, divided by (B) the total number of shares of Common Stock outstanding immediately after such issue or sale, and the denominator of which shall be the Fair Value per share of Common Stock immediately prior to such issue or sale.

The provisions of this Subsection (b) shall not apply to any shares of Common Stock which are distributed to holders of Common Stock pursuant to a stock dividend or subdivision for which an adjustment is provided for under Subsection (a) of this Section 3.2. No adjustment of the Purchase Price shall be made under this Subsection upon the issuance of any shares of Common Stock which are issued pursuant to the exercise of any Stock Purchase Rights or pursuant to the conversion or exchange of any Convertible Securities if an adjustment shall previously have been made upon the issuance of such Stock Purchase Rights or Convertible Securities pursuant to Subsection (a), (c) or (d) of this Section 3.2.

For purposes of this Warrant, "Fair Value" per share of Common Stock means the following:

(i) if the Common Stock is listed on a national securities exchange, the Nasdaq National Market or another nationally recognized exchange or trading system as of the date on which a determination of Fair Value is to be made, the Fair Value per share of Common Stock shall be deemed to be the last reported sale price per share of Common Stock thereon on the trading day immediately preceding such date; and

(ii) if the Common Stock is not listed on a national securities exchange, the Nasdaq National Market or another nationally recognized exchange or trading system as of the date on which a determination of Fair Value is to be made, the Fair Value per share of Common Stock shall be as agreed upon by the Company and the Registered Holder.

Whenever the Company shall issue any of its Common Stock, Stock Purchase Rights or Convertible Securities as consideration for a merger, the purchase of stock or assets from or similar transaction with a bona fide third party, such shares will be deemed for all purposes hereunder to be issued for Fair Value.

(c) Issuance of Stock Purchase Rights. In the event that the Company shall issue or sell any Stock Purchase Rights and the consideration per share for which shares of Common Stock may at any time thereafter be issuable upon exercise thereof (or, in the case of Stock Purchase Rights exercisable for the purchase of Convertible Securities, upon the subsequent conversion or exchange of such Convertible Securities) shall be less than the Fair Value per share of Common Stock immediately prior to the issuance of such Stock Purchase Rights, the Purchase Price shall be adjusted as provided in Subsection (b) of this Section 3.2 on the basis that (i) the maximum

number of shares of Common Stock issuable upon exercise of such Stock Purchase Rights (or upon conversion or exchange of such Convertible Securities following such exercise) shall be deemed to have been issued as of the date of the issuance of such Stock Purchase Rights as hereinafter provided and (ii) the aggregate consideration received for such shares of Common Stock shall be deemed to be the minimum consideration received or receivable by the Company in connection with the issuance and exercise of such Stock Purchase Rights (or upon conversion or exchange of such Convertible Securities). For the purposes of this Subsection (c), the date as of which such Stock Purchase Rights shall be deemed to be issued shall be the earlier of (A) the date on which the Company shall enter into a firm contract for the issuance of such Stock Purchase Rights, or (B) the date of actual issuance of such Stock Purchase Rights.

(d) Issuance of Convertible Securities. In the event that the Company shall issue or sell any Convertible Securities and the consideration per share for which shares of Common Stock may at any time thereafter be issuable pursuant to the terms of such Convertible Securities shall be less than the Fair Value per share of Common Stock immediately prior to the issuance of such Convertible Securities, the Purchase Price shall be adjusted as provided in Subsection (b) of this Section 3.2 on the basis that (i) the maximum number of shares of Common Stock issuable upon the conversion or exchange of all such Convertible Securities shall be deemed to have been issued as of the date of issuance of such Convertible Securities as hereinafter provided and (ii) the aggregate consideration received for such shares of Common Stock shall be deemed to be equal to the minimum consideration received or receivable by the Company in connection with the issuance and conversion or exchange of such Convertible Securities. For the purposes of this Subsection (d), the date as of which such Convertible Securities shall be deemed to be issued shall be the earlier of (A) the date on which the Company shall enter into a firm contract for the issuance of such Convertible Securities, or (B) the date of actual issuance of such Convertible Securities. No adjustment of the Purchase Price shall be made under this Subsection upon the issuance of any Convertible Securities which are issued pursuant to the exercise of any Stock Purchase Rights, if an adjustment shall previously have been made upon the issuance of such Stock Purchase Rights pursuant to Subsection (c) of this Section 3.2.

(e) Minimum Adjustment. In the event any adjustment of the Purchase Price pursuant to this Section 3.2 shall result in an adjustment of less than \$.01 per share of Common Stock, no such adjustment shall be made, but any such lesser adjustment shall be carried forward and shall be made at the time and together with the next subsequent adjustment which, together with any adjustments so carried forward, shall amount to \$.01 or more per share of Common Stock; provided, however, that upon any adjustment of the Purchase Price pursuant to Subsection 3.2(a), the foregoing figure of \$.01 per

share (or such figure last adjustment) shall be proportionately adjusted and provided further that upon the exercise of this Warrant, the Company shall make all necessary adjustments (to the nearest .001 of a cent) not theretofore made to the Purchase Price up to and including the date upon which this Warrant is exercised.

(f) Readjustment of Purchase Price and Warrant Shares. In the event (i) the purchase price payable for any Stock Purchase Rights or Convertible Securities referred to in Subsection (c) or (d) above, (ii) the additional consideration, if any, payable upon exercise of such Stock Purchase Rights or upon the conversion or exchange of such Convertible Securities or (iii) the rate at which any Convertible Securities are convertible into or exchangeable for shares of Common Stock shall change, the Purchase Price in effect at the time of such change shall forthwith be readjusted to the Purchase Price which would have been in effect at such time had such Stock Purchase Rights or Convertible Securities provided for such changed purchase price, additional consideration or conversion rate, as the case may be, at the time initially granted, issued or sold. On the expiration of any such Stock Purchase Rights not exercised or of any such Convertible Securities not converted or exchanged, the Purchase Price then in effect shall forthwith be increased to the Purchase Price which would have been in effect at the time of such expiration or termination had such Stock Purchase Rights or Convertible Securities never been issued. No readjustment of the Purchase Price pursuant to this Subsection (f) shall have the effect of increasing the Purchase Price by an amount in excess of the adjustment originally made to the Purchase Price in respect of the issue, sale or grant of the applicable Stock Purchase Rights or Convertible Securities.

(g) Reorganization, Reclassification or Recapitalization of Company. In the event of (i) any capital reorganization or reclassification or recapitalization of the capital stock of the Company (other than in the cases referred to in Subsection (a) of this Section 3.2), or (ii) the consolidation or merger of the Company with or into another corporation or the sale or transfer of all or substantially all of the assets of the Company in which the Common Stock is converted into or exchanged for securities or other property, there shall thereafter be deliverable upon the exercise of this Warrant or any portion thereof the amount of securities or property which the holder of the number of shares of Common Stock which would otherwise have been deliverable upon the exercise of this Warrant or any portion thereof would have been entitled to receive upon such capital reorganization, reclassification, recapitalization, consolidation, merger or sale, and at the same aggregate Purchase Price.

Prior to and as a condition of the consummation of any transaction described in the preceding sentence, the Company shall make equitable, written adjustments in the application of the

provisions herein set forth with respect to the rights and interests of the Registered Holder so that the provisions set forth herein shall thereafter be applicable, as nearly as possible, in relation to any securities or other property thereafter deliverable upon exercise of this Warrant. Any such adjustment shall be made by and set forth in a supplemental instrument executed by the Company and/or the successor entity, as applicable, which agreement shall bind each such entity.

(h) Other Dilutive Events. If any event shall occur as to which the other provisions of this Section 3 are not strictly applicable but as to which the failure to make an adjustment of the nature provided for in this Section 3 would not fairly protect the purchase rights represented by this Warrant in accordance with the essential intent and principles hereof, then, in each such case, the Company shall appoint a firm of independent public accountants of recognized national standing (which may be the regular auditors of the Company), which shall give their opinion as to the adjustment, if any, on a basis consistent with the essential intent and principles established in this Section 3, necessary to preserve, without dilution, the purchase rights represented by this Warrant. Upon receipt of such opinion, the Company will promptly mail a copy thereof to the Registered Holder and shall make the adjustments described therein.

(i) Determination of Consideration. For purposes of this Section 3, the consideration received or receivable by the Company for the issuance, sale, grant or assumption of shares of Common Stock, Stock Purchase Rights or Convertible Securities, irrespective of the accounting treatment of such consideration, shall be valued as follows:

(1) Cash Payment. In the case of cash, the net amount received by the Company before deduction of any underwriting commissions or similar concessions paid or allowed by the Company.

(2) Securities or Other Property. In the case of securities or other property, the fair market value as determined in good faith by the Board of Directors of the Company; provided that a determination with respect to any securities for which a public trading market exists shall be based upon the most recent public trading price of such securities.

(3) Allocation Related to Common Stock. In the event shares of Common Stock are issued or sold together with other securities or other assets of the Company for a consideration which covers both, the consideration received (computed as provided in clauses (1) and (2) above) shall be allocable to such shares of Common Stock as determined in good faith by the Board of Directors of the Company.

(4) Allocation Related to Stock Purchase Rights and Convertible Securities. In the event that any Stock Purchase Rights or Convertible Securities shall be issued or sold together with other securities or other assets of the Company, together comprising one integral transaction in which no specific consideration is allocated to the Stock Purchase Rights or Convertible Securities, the consideration received shall be allocable to such Stock Purchase Rights and Convertible Securities as determined in good faith by the Board of Directors of the Company.

(5) Dividends on Securities. In the event that the Company shall declare a dividend or make any other distribution upon any stock of the Company (other than Common Stock) payable in either case in Common Stock, Convertible Securities or Stock Purchase Rights, such Common Stock, Convertible Securities or Stock Purchase Rights, as the case may be, issuable in payment of such dividend or distribution shall be deemed to have been issued or sold without consideration.

(6) Stock Purchase Rights and Convertible Securities. The consideration for which shares of Common Stock shall be deemed to be issued upon the issuance of any Stock Purchase Rights or Convertible Securities shall be determined by dividing (i) the total consideration, if any, received or receivable by the Company as consideration for the granting of such Stock Purchase Rights or the issuance of such Convertible Securities, plus the minimum aggregate amount of additional consideration payable to the Company upon the exercise of such Stock Purchase Rights or the conversion or exchange of such Convertible Securities or, in the case of Stock Purchase Rights for Convertible Securities, the minimum aggregate amount of additional consideration, if any, payable upon the exercise of such Stock Purchase Rights and the conversion or exchange of such Convertible Securities, in each case before deducting any underwriting commissions or similar concessions paid or allowed by the Company, by (ii) the maximum number of shares of Common Stock issuable upon the exercise of such Stock Purchase Rights or upon the conversion or exchange of such Convertible Securities.

(j) Record Date. In the event that the Company shall take a record of the holders of the Common Stock for the purpose of entitling them (i) to receive a dividend or other distribution payable in Common Stock, Convertible Securities or Stock Purchase Rights or (ii) to subscribe for or purchase Common Stock, Convertible Securities or Stock Purchase Rights, then all references in this Section 3 to the date of the issue or sale of the shares of Common Stock deemed to have been issued or sold upon the declaration of such dividend or the making of such other distribution or the date of the granting of such right of subscription or purchase, as the case may be, shall be deemed to be references to such record date.

(k) Shares Outstanding. The number of shares of

Common Stock deemed to be outstanding at any given time shall not include (i) shares of Common Stock in the treasury of the Company or owned by any wholly-owned subsidiary of the Company and (ii) except where shares are described on a "fully diluted basis" or in a similar manner, any of the Warrant Shares.

(l) Maximum Purchase Price. At no time shall the Purchase Price per share of Common Stock exceed the amount set forth in the first paragraph of the preamble of this Warrant except pursuant to adjustments made pursuant to Subsection (a) or (g) of this Section 3.2.

(m) Application. Except as otherwise provided herein, all Subsections of this Section 3.2 are intended to operate independently of one another, but without duplication. If an event occurs that requires the application of more than one Subsection, all applicable Subsections shall be given independent effect; provided, however, that no adjustment shall be made which duplicates an adjustment already made pursuant to some other Subsection of this Section 3.

(n) No Adjustments under Certain Circumstances. Anything herein to the contrary notwithstanding, the Company shall not be required to make any adjustment of the Purchase Price in the case of:

(i) the issuance of shares of Common Stock pursuant to a rights offering in which the Registered Holder is granted an opportunity to participate under the provisions of Section 3.3.; or

(ii) the issuance of options or shares of Common Stock to employees, directors or consultants pursuant to an employment agreement, a stock option agreement or a plan approved by the Board of Directors of the Company.

3.3 Rights Offering. In the event the Company shall effect an offering of Common Stock pro rata among its stockholders then the Registered Holder shall be entitled, at its option, to elect to participate in such offering as if this Warrant had been exercised and the Registered Holder were at the time of such rights offering a holder of that number of shares of Common Stock to which the Registered Holder is then entitled on the exercise hereof.

3.4 Certificates and Notices.

(a) Adjustments to Purchase Price. Upon any adjustment under this Section 3 of the number of shares of Common Stock purchasable upon exercise of this Warrant or of the Purchase Price, a certificate, signed (i) by a Vice President or the Treasurer of the Company, or (ii) by any independent firm of certified public

accountants of recognized national standing selected by, and at the expense of the Company (which may be the Company's outside auditing firm), setting forth in reasonable detail the events requiring the adjustment and the method by which such adjustment was calculated and specifying the adjusted Purchase Price and the number of shares of Common Stock or other property purchasable upon exercise of this Warrant after giving effect to such adjustment, shall be mailed to the Registered Holder.

The certificate of any independent firm of certified public accountants of recognized national standing selected by the Board of Directors of the Company shall be conclusive evidence of the correctness of any computation made under this Section 3, absent manifest error.

(b) Extraordinary Corporate Events. In the event that the Company after the date hereof shall propose to (i) pay any dividend payable in stock to the holders of shares of Common Stock or to make any other distribution to the holders of shares of Common Stock (other than a stock split effected by means of a Common Stock dividend), (ii) offer to the holders of shares of Common Stock rights to subscribe for or purchase any shares of any class of stock or any other rights or options or (iii) effect any reclassification of the Common Stock (other than a reclassification involving merely the subdivision or combination of outstanding shares of Common Stock) or any capital reorganization or any consolidation or merger (other than a merger in which no distribution of securities or other property is to be made to holders of shares of Common Stock), or any sale, transfer or other disposition of all or substantially all of its assets, or the liquidation, dissolution or winding up of the Company, then, in each such case, the Company shall mail to the Registered Holder notice of such proposed action, which shall specify the date on which the stock transfer books of the Company shall close, or a record shall be taken, for determining the holders of Common Stock entitled to receive such stock dividends or other distribution or such rights or options, or the date on which such reclassification, reorganization, consolidation, merger, sale, transfer, other disposition, liquidation, dissolution or winding up shall take place or commence, as the case may be, and the date as of which it is expected that holders of Common Stock of record shall be entitled to receive securities or other property deliverable upon such action, if any such date is to be fixed. Such notice shall be mailed in the case of any action covered by clause (i) or (ii) above at least 10 days prior to the record date for determining holders of Common Stock for purposes of receiving such payment or offer, or in the case of any action covered by clause (iii) above at least 30 days prior to the date upon which such action takes place and 20 days prior to any record date to determine holders of Common Stock entitled to receive such securities or other property.

(c) Effect of Failure. Failure to file any

certificate or notice or to mail any notice, or any defect in any certificate or notice pursuant to this Section 3.4 shall not affect the legality or validity of the adjustment of the Purchase Price or the number of shares purchasable upon exercise of this Warrant, or any transaction giving rise thereto.

26. Fractional Shares. The Company shall not be required upon the exercise of this Warrant to issue any fractional shares, but shall make an adjustment therefor in cash on the basis of the fair market value per share of Common Stock, as determined in good faith by the Board of Directors of the Company.

27. Transfer Restrictions.

27.1 This Warrant may not be sold or transferred without the prior written consent of the Company, which shall not be unreasonably withheld; provided that the Company's consent shall not be required in the event of the sale of all or substantially all of the assets of the Registered Holder. Any permitted transfer shall be effected by surrendering this Warrant, along with a properly executed assignment, at the principal office of the Company.

27.2 The Warrant Shares may not be sold or transferred unless either (i) they first shall have been registered under the Securities Act of 1933, as amended (the "Act"), or (ii) the Company first shall have been furnished with an opinion of legal counsel, reasonably satisfactory to the Company, to the effect that such sale or transfer is exempt from the registration requirements of the Act.

27.3 Each certificate representing Warrant Shares shall bear a legend substantially in the following form:

"The securities represented by this certificate have not been registered under the Securities Act of 1933, as amended, and may not be offered, sold or otherwise transferred unless and until such securities are registered under such Act or an opinion of counsel satisfactory to the Company is obtained to the effect that such registration is not required."

The foregoing legend shall be removed from the certificates representing any Warrant Shares, at the request of the holder thereof, at such time as they become eligible for resale pursuant to Rule 144(k) under the Act.

28. No Impairment. The Company will not, by amendment of its charter or through reorganization, consolidation, merger, dissolution, sale of assets or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant.

29. Liquidating Dividends. If the Company pays a dividend or makes a distribution on the Common Stock (other than one payable in (i) cash out of earnings or earned surplus (determined in accordance with generally accepted accounting principles) or (ii) shares of Common Stock) (a "Liquidating Dividend"), then the Company will pay or distribute to the Registered Holder of this Warrant, upon the exercise hereof, in addition to the Warrant Shares purchased upon such exercise, the Liquidating Dividend which would have been paid to such Registered Holder if he had been the owner of record of such Warrant Shares immediately prior to the date on which a record is taken for such Liquidating Dividend or, if no record is taken, the date as of which the record holders of Common Stock entitled to such dividends or distribution are to be determined.

30. Reservation of Stock. The Company will at all times reserve and keep available, solely for issuance and delivery upon the exercise of this Warrant, such number of Warrant Shares and other stock, securities and property, as from time to time shall be issuable upon the exercise of this Warrant.

31. Replacement of Warrants. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and (in the case of loss, theft or destruction) upon delivery of an indemnity agreement (with surety if reasonably required) in an amount reasonably satisfactory to the Company, or (in the case of mutilation) upon surrender and cancellation of this Warrant, the Company will issue, in lieu thereof, a new Warrant of like tenor.

32. No Rights as Stockholder. Until the exercise of this Warrant, the Registered Holder of this Warrant shall not have or exercise any rights by virtue hereof as a stockholder of the Company. Notwithstanding the foregoing, in the event (i) the Company effects a split of the Common Stock by means of a stock dividend and the exercise price of and the number of shares subject to this Warrant are adjusted as of the date of the distribution of the dividend (rather than as of the record date for such dividend), and (ii) the Registered Holder exercises this Warrant between the record date and the distribution date for such stock dividend, the Registered Holder shall be entitled to receive, on the distribution date, the stock dividend with respect to the shares of Common Stock acquired upon such exercise, notwithstanding the fact that such shares were not outstanding as of the close of business on the record date for such stock dividend.

33. Change or Waiver. Any term of this Warrant may be changed or waived only by an instrument in writing signed by the party against which enforcement of the change or waiver is sought.

34. Headings. The headings in this Warrant are for purposes of

reference only and shall not limit or otherwise affect the meaning of any provision of this Warrant.

35. Governing Law. This Warrant will be governed by and construed in accordance with the laws of the State of Delaware.

[Remainder of Page Intentionally Left Blank]

Executed as of the date first written above.

SPYGLASS, INC.

By: _____

Title: _____

ATTEST:

EXHIBIT I

PURCHASE FORM

To: _____

Dated: _____

The undersigned, pursuant to the provisions set forth in the attached Warrant (No. ____), hereby irrevocably elects to purchase _____ shares of the Common Stock covered by such Warrant. The undersigned herewith makes payment of \$_____, in lawful money of the United States, representing the full purchase price for such shares at the price per share provided for in such Warrant.

Signature: _____

Address: _____

Confidential Materials omitted and filed separately with the Securities and Exchange Commission. Asterisks denote omissions.

EXHIBIT C

THIS WARRANT AND THE SHARES OF COMMON STOCK ISSUED UPON ITS EXERCISE ARE SUBJECT TO THE RESTRICTIONS ON TRANSFER SET FORTH IN SECTION 5 OF THIS WARRANT

Date of Issuance: October 19, 1998 Number of Shares: ***
(subject to adjustment)

SPYGLASS, INC.

Common Stock Purchase Warrant

Spyglass, Inc., a Delaware corporation (the "Company"), for value received, hereby certifies that General Instrument Corporation (the "Registered Holder") is entitled, subject to the terms set forth below, to purchase from the Company, at any time or from time to time on or after the date of issuance and on or before 5:00 p.m. (Boston, Massachusetts time) on the Expiration Date (as defined below), *** shares of Common Stock, \$.01 par value per share, of the Company, at a purchase price of *** per share. The shares purchasable upon exercise of this Warrant, and the purchase price per share, each as adjusted from time to time pursuant to the provisions of this Warrant, are hereinafter referred to as the "Warrant Shares" and the "Purchase Price," respectively. The "Expiration Date" shall mean December 31, 2003, or (if applicable) such later date as is provided for in Section 1(c) below.

1. Vesting Schedule.

(a) This Warrant will become exercisable ("vest") as to all of the Warrant Shares on October 1, 2003.

(b) Notwithstanding the foregoing vesting schedule, this Warrant shall become immediately vested in full on the date (the "Acceleration Date") 10 days following the date (if any) on which the Registered Holder has paid to the Company (or a subsidiary or affiliate (as defined in Rule 405 under the Securities Act of 1933) of the Company) an aggregate of *** under the Digital Software Integration Center Sourcing Agreement dated October 19, 1998 between the Company and the Registered Holder (the "Sourcing Agreement").

(c) In the event that any of the companies listed on Exhibit C to the Operating Agreement dated October 19, 1998 between the Company, the Registered Holder and Spyglass DSIC, Inc. (the "Operating Agreement") acquire beneficial ownership (within the meaning of Section 13(d) of the Securities Exchange Act of 1934) of shares of Common Stock of the Company representing 20% or more of the outstanding Common Stock of the Company and either (i) the Registered Holder exercises its right to terminate the Sourcing Agreement or (ii) the Registered Holder exercises its purchase option under the Operating Agreement, this Warrant shall become immediately vested in full.

(d) In the event of the acceleration of vesting of this Warrant under Section 1(b) or 1(c) above, the Expiration Date shall be the later of December 31, 2003 and the date three years following the Acceleration Date.

2. Exercise.

(a) This Warrant may be exercised by the Registered Holder, in whole or in part, by surrendering this Warrant, with the purchase form appended hereto as Exhibit I duly executed by such Registered Holder, at the principal office of the Company, or at such other office or agency as the Company may designate, accompanied by payment in full, in lawful money of the United States, of the Purchase Price payable in respect of the number of Warrant Shares purchased upon such exercise.

(b) Each exercise of this Warrant shall be deemed to have been effected immediately prior to the close of business on the day on which this Warrant shall have been surrendered to the Company as provided in Section 2(a) above. At such time, the person or persons in whose name or names any certificates for Warrant Shares shall be issuable upon such exercise as provided in Section 2(c) below shall be deemed to have become the holder or holders of record of the Warrant Shares represented by such certificates.

(c) As soon as practicable after the exercise of this Warrant in full or in part, the Company, at its expense, will cause to be issued in the name of, and delivered to, the Registered Holder, or as such Holder (upon payment by such Holder of any applicable transfer taxes) may direct:

(i) a certificate or certificates for the number of full Warrant Shares to which the Registered Holder shall be entitled upon such exercise plus, in lieu of any fractional share to which the Registered Holder would otherwise be entitled, cash in an amount determined pursuant to Section 4 hereof; and

(ii) in case such exercise is in part only, a new warrant or warrants (dated the date hereof) of like tenor, calling in the

aggregate on the face or faces thereof for the number of Warrant Shares equal (without giving effect to any adjustment therein) to the number of such shares called for on the face of this Warrant minus the number of such shares purchased by the Registered Holder upon such exercise.

(d) The Company shall be responsible for any and all taxes arising from the granting and/or exercise of this Warrant (other than taxes on the transfer of this Warrant or on the income of the Registered Holder), including, but not limited to, all documentary and stamp taxes.

3. Antidilution Provisions.

3.1 Adjustment of Number of Shares Purchasable. Upon any adjustment of the Purchase Price as provided in Section 3.2(a), the Registered Holder shall thereafter be entitled to purchase, at the Purchase Price resulting from such adjustment, the number of Warrant Shares (calculated to the nearest 1/100th of a share) obtained by multiplying the Purchase Price in effect immediately prior to such adjustment by the number of Warrant Shares purchasable hereunder immediately prior to such adjustment and dividing the product thereof by the Purchase Price resulting from such adjustment.

3.2 Adjustment of Purchase Price. The Purchase Price shall be subject to adjustment from time to time as hereinafter set forth.

(a) Stock Dividends, Subdivisions and Combinations. In the event that the Company subsequent to the date hereof shall:

(i) declare a dividend upon, or make any distribution in respect of, any of its Common Stock, payable in Common Stock, Convertible Securities or Stock Purchase Rights, or

(ii) subdivide its outstanding shares of Common Stock into a larger number of shares of Common Stock, or

(iii) combine its outstanding shares of Common Stock into a smaller number of shares of Common Stock,

then the Purchase Price shall be adjusted to that price determined by multiplying the Purchase Price per share of Common Stock immediately prior to such event by a fraction (A) the numerator of which shall be the total number of outstanding shares of Common Stock of the Company immediately prior to such event and (B) the denominator of which shall be the total number of outstanding shares of Common Stock of the Company immediately after such event. For purposes of this Section 3.2, all shares of Common Stock issuable upon conversions or exchanges of Convertible Securities and exercises of Stock Purchase

Rights shall be treated as outstanding. "Convertible Securities" means evidences of indebtedness, shares of stock or other

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securities which are convertible into or exchangeable for, with or without payment of additional consideration, shares of Common Stock, either immediately or upon the arrival of a specified date or the happenings of a specified event. "Stock Purchase Rights" means any warrants, options or other rights to subscribe for, purchase or otherwise acquire any shares of Common Stock or any Convertible Securities.

(b) Issuance of Additional Shares of Common Stock.

In the event that the Company shall issue or sell any shares of Common Stock after the date hereof for a consideration less than *** of the then Fair Value (as defined below) per share immediately prior to such issue or sale, the Purchase Price in effect immediately prior to such issuance or sale shall be adjusted by: multiplying the then existing Purchase Price by a fraction the numerator of which is (A) the sum of (1) the number of shares of Common Stock outstanding immediately prior to such issue or sale multiplied by the Fair Value per share of Common Stock immediately prior to such issue or sale plus (2) the consideration received by the Company upon such issue or sale, divided by (B) the total number of shares of Common Stock outstanding immediately after such issue or sale, and the denominator of which shall be the Fair Value per share of Common Stock immediately prior to such issue or sale.

The provisions of this Subsection (b) shall not apply to any shares of Common Stock which are distributed to holders of Common Stock pursuant to a stock dividend or subdivision for which an adjustment is provided for under Subsection (a) of this Section 3.2.

No adjustment of the Purchase Price shall be made under this Subsection upon the issuance of any shares of Common Stock which are issued pursuant to the exercise of any Stock Purchase Rights or pursuant to the conversion or exchange of any Convertible Securities if an adjustment shall previously have been made upon the issuance of such Stock Purchase Rights or Convertible Securities pursuant to Subsection (a), (c) or (d) of this Section 3.2.

For purposes of this Warrant, "Fair Value" per share of Common Stock means the following:

(i) if the Common Stock is listed on a national securities exchange, the Nasdaq National Market or another nationally recognized exchange or trading system as of the date on which a determination of Fair Value is to be made, the Fair Value per share of Common Stock shall be deemed to be the last reported sale price per share of Common Stock thereon on the trading day immediately

preceding such date; and

(ii) if the Common Stock is not listed on a national securities exchange, the Nasdaq National Market or another nationally recognized exchange or trading system as of the date on which a determination of Fair Value is to be made, the Fair Value per share of Common Stock shall be as agreed upon by the Company and the Registered Holder.

Whenever the Company shall issue any of its Common Stock, Stock Purchase Rights or Convertible Securities as consideration for a merger, the purchase of stock or assets from or similar transaction with a bona fide third party, such shares will be deemed for all purposes hereunder to be issued for Fair Value.

(c) Issuance of Stock Purchase Rights. In the event that the Company shall issue or sell any Stock Purchase Rights and the consideration per share for which shares of Common Stock may at any time thereafter be issuable upon exercise thereof (or, in the case of Stock Purchase Rights exercisable for the purchase of Convertible Securities, upon the subsequent conversion or exchange of such Convertible Securities) shall be less than the Fair Value per share of Common Stock immediately prior to the issuance of such Stock Purchase Rights, the Purchase Price shall be adjusted as provided in Subsection (b) of this Section 3.2 on the basis that (i) the maximum number of shares of Common Stock issuable upon exercise of such Stock Purchase Rights (or upon conversion or exchange of such Convertible Securities following such exercise) shall be deemed to have been issued as of the date of the issuance of such Stock Purchase Rights as hereinafter provided and (ii) the aggregate consideration received for such shares of Common Stock shall be deemed to be the minimum consideration received or receivable by the Company in connection with the issuance and exercise of such Stock Purchase Rights (or upon conversion or exchange of such Convertible Securities). For the purposes of this Subsection (c), the date as of which such Stock Purchase Rights shall be deemed to be issued shall be the earlier of (A) the date on which the Company shall enter into a firm contract for the issuance of such Stock Purchase Rights, or (B) the date of actual issuance of such Stock Purchase Rights.

(d) Issuance of Convertible Securities. In the event that the Company shall issue or sell any Convertible Securities and the consideration per share for which shares of Common Stock may at any time thereafter be issuable pursuant to the terms of such Convertible Securities shall be less than the Fair Value per share of Common Stock immediately prior to the issuance of such Convertible Securities, the Purchase Price shall be adjusted as provided in Subsection (b) of this Section 3.2 on the basis that (i) the maximum number of shares of Common Stock issuable upon the conversion or exchange of all such Convertible Securities shall be deemed to have been issued as of the date of issuance of such Convertible Securities

as hereinafter provided and (ii) the aggregate consideration received for such shares of Common Stock shall be deemed to be equal to the minimum consideration received or receivable by the Company in connection with the issuance and conversion or exchange of such Convertible Securities. For the purposes of this Subsection (d), the date as of which such Convertible Securities shall be deemed to be issued shall be the earlier of (A) the date on which the Company shall enter into a firm contract for the issuance of such Convertible Securities, or (B) the date of actual issuance of such Convertible Securities. No adjustment of the Purchase Price shall be made under this Subsection upon the issuance of any Convertible Securities which are issued pursuant to the exercise of any Stock Purchase Rights, if an adjustment shall previously have been made upon the issuance of such Stock Purchase Rights pursuant to Subsection (c) of this Section 3.2.

(e) Minimum Adjustment. In the event any adjustment of the Purchase Price pursuant to this Section 3.2 shall result in an adjustment of less than \$.01 per share of Common Stock, no such adjustment shall be made, but any such lesser adjustment shall be carried forward and shall be made at the time and together with the next subsequent adjustment which, together with any adjustments so carried forward, shall amount to \$.01 or more per share of Common Stock; provided, however, that upon any adjustment of the Purchase Price pursuant to Subsection 3.2(a), the foregoing figure of \$.01 per share (or such figure last adjustment) shall be proportionately adjusted and provided further that upon the exercise of this Warrant, the Company shall make all necessary adjustments (to the nearest .001 of a cent) not theretofore made to the Purchase Price up to an including the date upon which this Warrant is exercised.

(f) Readjustment of Purchase Price and Warrant Shares. In the event (i) the purchase price payable for any Stock Purchase Rights or Convertible Securities referred to in Subsection (c) or (d) above, (ii) the additional consideration, if any, payable upon exercise of such Stock Purchase Rights or upon the conversion or exchange of such Convertible Securities or (iii) the rate at which any Convertible Securities are convertible into or exchangeable for shares of Common Stock shall change, the Purchase Price in effect at the time of such change shall forthwith be readjusted to the Purchase Price which would have been in effect at such time had such Stock Purchase Rights or Convertible Securities provided for such changed purchase price, additional consideration or conversion rate, as the case may be, at the time initially granted, issued or sold. On the expiration of any such Stock Purchase Rights not exercised or of any such Convertible Securities not converted or exchanged, the Purchase Price then in effect shall forthwith be increased to the Purchase Price which would have been in effect at the time of such expiration or termination had such Stock Purchase Rights or Convertible Securities never been issued. No readjustment of the Purchase Price pursuant to this Subsection (f) shall have the effect of increasing

the Purchase Price by an amount in excess of the adjustment originally made to the Purchase Price in respect of the issue, sale or grant of the applicable Stock Purchase Rights or Convertible Securities.

(g) Reorganization, Reclassification or Recapitalization of Company. In the event of (i) any capital reorganization or reclassification or recapitalization of the capital stock of the Company (other than in the cases referred to in Subsection (a) of this Section 3.2), or (ii) the consolidation or merger of the Company with or into another corporation or the sale or transfer of all or substantially all of the assets of the Company in which the Common Stock is converted into or exchanged for securities or other property, there shall thereafter be deliverable upon the exercise of this Warrant or any portion thereof the amount of securities or property which the holder of the number of shares of Common Stock which would otherwise have been deliverable upon the exercise of this Warrant or any portion thereof would have been entitled to receive upon such capital reorganization, reclassification, recapitalization, consolidation, merger or sale, and at the same aggregate Purchase Price.

Prior to and as a condition of the consummation of any transaction described in the preceding sentence, the Company shall make equitable, written adjustments in the application of the provisions herein set forth with respect to the rights and interests of the Registered Holder so that the provisions set forth herein shall thereafter be applicable, as nearly as possible, in relation to any securities or other property thereafter deliverable upon exercise of this Warrant. Any such adjustment shall be made by and set forth in a supplemental instrument executed by the Company and/or the successor entity, as applicable, which agreement shall bind each such entity.

(h) Other Dilutive Events. If any event shall occur as to which the other provisions of this Section 3 are not strictly applicable but as to which the failure to make an adjustment of the nature provided for in this Section 3 would not fairly protect the purchase rights represented by this Warrant in accordance with the essential intent and principles hereof, then, in each such case, the Company shall appoint a firm of independent public accountants of recognized national standing (which may be the regular auditors of the Company), which shall give their opinion as to the adjustment, if any, on a basis consistent with the essential intent and principles established in this Section 3, necessary to preserve, without dilution, the purchase rights represented by this Warrant. Upon receipt of such opinion, the Company will promptly mail a copy thereof to the Registered Holder and shall make the adjustments described therein.

(i) Determination of Consideration. For purposes of

this Section 3, the consideration received or receivable by the Company for the issuance, sale, grant or assumption of shares of Common Stock, Stock Purchase Rights or Convertible Securities, irrespective of the accounting treatment of such consideration, shall be valued as follows:

(1) Cash Payment. In the case of cash, the net amount received by the Company before deduction of any underwriting commissions or similar concessions paid or allowed by the Company.

(2) Securities or Other Property. In the case of securities or other property, the fair market value as determined in good faith by the Board of Directors of the Company; provided that a determination with respect to any securities for which a public trading market exists shall be based upon the most recent public trading price of such securities.

(3) Allocation Related to Common Stock. In the event shares of Common Stock are issued or sold together with other securities or other assets of the Company for a consideration which covers both, the consideration received (computed as provided in clauses (1) and (2) above) shall be allocable to such shares of Common Stock as determined in good faith by the Board of Directors of the Company.

(4) Allocation Related to Stock Purchase Rights and Convertible Securities. In the event that any Stock Purchase Rights or Convertible Securities shall be issued or sold together with other securities or other assets of the Company, together comprising one integral transaction in which no specific consideration is allocated to the Stock Purchase Rights or Convertible Securities, the consideration received shall be allocable to such Stock Purchase Rights and Convertible Securities as determined in good faith by the Board of Directors of the Company.

(5) Dividends on Securities. In the event that the Company shall declare a dividend or make any other distribution upon any stock of the Company (other than Common Stock) payable in either case in Common Stock, Convertible Securities or Stock Purchase Rights, such Common Stock, Convertible Securities or Stock Purchase Rights, as the case may be, issuable in payment of such dividend or distribution shall be deemed to have been issued or sold without consideration.

(6) Stock Purchase Rights and Convertible Securities. The consideration for which shares of Common Stock shall be deemed to be issued upon the issuance of any Stock Purchase Rights or Convertible Securities shall be determined by dividing (i) the total consideration, if any, received or receivable by the Company as consideration for the granting of such Stock Purchase Rights or the issuance of such Convertible Securities, plus the minimum aggregate

amount of additional consideration payable to the Company upon the exercise of such Stock Purchase Rights or the conversion or exchange of such Convertible Securities or, in the case of Stock Purchase Rights for Convertible Securities, the minimum aggregate amount of additional consideration, if any, payable upon the exercise of such Stock Purchase Rights and the conversion or exchange of such Convertible Securities, in each case before deducting any underwriting commissions or similar concessions paid or allowed by the Company, by (ii) the maximum number of shares of Common Stock issuable upon the exercise of such Stock Purchase Rights or upon the conversion or exchange of such Convertible Securities.

(j) Record Date. In the event that the Company shall take a record of the holders of the Common Stock for the purpose of entitling them (i) to receive a dividend or other distribution payable in Common Stock, Convertible Securities or Stock Purchase Rights or (ii) to subscribe for or purchase Common Stock, Convertible Securities or Stock Purchase Rights, then all references in this Section 3 to the date of the issue or sale of the shares of Common Stock deemed to have been issued or sold upon the declaration of such dividend or the making of such other distribution or the date of the granting of such right of subscription or purchase, as the case may be, shall be deemed to be references to such record date.

(k) Shares Outstanding. The number of shares of Common Stock deemed to be outstanding at any given time shall not include (i) shares of Common Stock in the treasury of the Company or owned by any wholly-owned subsidiary of the Company and (ii) except where shares are described on a "fully diluted basis" or in a similar manner, any of the Warrant Shares.

(l) Maximum Purchase Price. At no time shall the Purchase Price per share of Common Stock exceed the amount set forth in the first paragraph of the preamble of this Warrant except pursuant to adjustments made pursuant to Subsection (a) or (g) of this Section 3.2.

(m) Application. Except as otherwise provided herein, all Subsections of this Section 3.2 are intended to operate independently of one another, but without duplication. If an event occurs that requires the application of more than one Subsection, all applicable Subsections shall be given independent effect; provided, however, that no adjustment shall be made which duplicates an adjustment already made pursuant to some other Subsection of this Section 3.

(n) No Adjustments under Certain Circumstances. Anything herein to the contrary notwithstanding, the Company shall not be required to make any adjustment of the Purchase Price in the case of:

(i) the issuance of shares of Common Stock pursuant to a rights offering in which the Registered Holder is granted an opportunity to participate under the provisions of Section 3.3.; or

(ii) the issuance of options or shares of Common Stock to employees, directors or consultants pursuant to an employment agreement, a stock option agreement or a plan approved by the Board of Directors of the Company.

3.3 Rights Offering. In the event the Company shall effect an offering of Common Stock pro rata among its stockholders then the Registered Holder shall be entitled, at its option, to elect to participate in such offering as if this Warrant had been exercised and the Registered Holder were at the time of such rights offering a holder of that number of shares of Common Stock to which the Registered Holder is then entitled on the exercise hereof.

3.4 Certificates and Notices.

(a) Adjustments to Purchase Price. Upon any adjustment under this Section 3 of the number of shares of Common Stock purchasable upon exercise of this Warrant or of the Purchase Price, a certificate, signed (i) by a Vice President or the Treasurer of the Company, or (ii) by any independent firm of certified public accountants of recognized national standing selected by, and at the expense of the Company (which may be the Company's outside auditing firm), setting forth in reasonable detail the events requiring the adjustment and the method by which such adjustment was calculated and specifying the adjusted Purchase Price and the number of shares of Common Stock or other property purchasable upon exercise of this Warrant after giving effect to such adjustment, shall be mailed to the Registered Holder.

The certificate of any independent firm of certified public accountants of recognized national standing selected by the Board of Directors of the Company shall be conclusive evidence of the correctness of any computation made under this Section 3, absent manifest error.

(b) Extraordinary Corporate Events. In the event that the Company after the date hereof shall propose to (i) pay any dividend payable in stock to the holders of shares of Common Stock or to make any other distribution to the holders of shares of Common Stock (other than a stock split effected by means of a Common Stock dividend), (ii) offer to the holders of shares of Common Stock rights to subscribe for or purchase any shares of any class of stock or any other rights or options or (iii) effect any reclassification of the Common Stock (other than a reclassification involving merely the subdivision or combination of outstanding shares of Common Stock) or any capital reorganization or any consolidation or merger (other than

a merger in which no distribution of securities or other property is to be made to holders of shares of Common Stock), or any sale, transfer or other disposition of all or substantially all of its assets, or the liquidation, dissolution or winding up of the Company, then, in each such case, the Company shall mail to the Registered Holder notice of such proposed action, which shall specify the date on which the stock transfer books of the Company shall close, or a record shall be taken, for determining the holders of Common Stock entitled to receive such stock dividends or other distribution or such rights or options, or the date on which such reclassification, reorganization, consolidation, merger, sale, transfer, other disposition, liquidation, dissolution or winding up shall take place or commence, as the case may be, and the date as of which it is expected that holders of Common Stock of record shall be entitled to receive securities or other property deliverable upon such action, if any such date is to be fixed. Such notice shall be mailed in the case of any action covered by clause (i) or (ii) above at least 10 days prior to the record date for determining holders of Common Stock for purposes of receiving such payment or offer, or in the case of any action covered by clause (iii) above at least 30 days prior to the date upon which such action takes place and 20 days prior to any record date to determine holders of Common Stock entitled to receive such securities or other property.

(c) Effect of Failure. Failure to file any certificate or notice or to mail any notice, or any defect in any certificate or notice pursuant to this Section 3.4 shall not affect the legality or validity of the adjustment of the Purchase Price or the number of shares purchasable upon exercise of this Warrant, or any transaction giving rise thereto.

39. Fractional Shares. The Company shall not be required upon the exercise of this Warrant to issue any fractional shares, but shall make an adjustment therefor in cash on the basis of the fair market value per share of Common Stock, as determined in good faith by the Board of Directors of the Company.

40. Transfer Restrictions.

40.1 This Warrant may not be sold or transferred without the prior written consent of the Company, which shall not be unreasonably withheld; provided that the Company's consent shall not be required in the event of the sale of all or substantially all of the assets of the Registered Holder. Any permitted transfer shall be effected by surrendering this Warrant, along with a properly executed assignment, at the principal office of the Company.

40.2 The Warrant Shares may not be sold or transferred unless either (i) they first shall have been registered under the Securities Act of 1933, as amended (the "Act"), or (ii) the Company first shall have been furnished with an opinion of legal counsel,

reasonably satisfactory to the Company, to the effect that such sale or transfer is exempt from the registration requirements of the Act.

40.3 Each certificate representing Warrant Shares shall bear a legend substantially in the following form:

"The securities represented by this certificate have not been registered under the Securities Act of 1933, as amended, and may not be offered, sold or otherwise transferred unless and until such securities are registered under such Act or an opinion of counsel satisfactory to the Company is obtained to the effect that such registration is not required."

The foregoing legend shall be removed from the certificates representing any Warrant Shares, at the request of the holder thereof, at such time as they become eligible for resale pursuant to Rule 144(k) under the Act.

41. No Impairment. The Company will not, by amendment of its charter or through reorganization, consolidation, merger, dissolution, sale of assets or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant.

42. Liquidating Dividends. If the Company pays a dividend or makes a distribution on the Common Stock (other than one payable in (i) cash out of earnings or earned surplus (determined in accordance with generally accepted accounting principles) or (ii) shares of Common Stock) (a "Liquidating Dividend"), then the Company will pay or distribute to the Registered Holder of this Warrant, upon the exercise hereof, in addition to the Warrant Shares purchased upon such exercise, the Liquidating Dividend which would have been paid to such Registered Holder if he had been the owner of record of such Warrant Shares immediately prior to the date on which a record is taken for such Liquidating Dividend or, if no record is taken, the date as of which the record holders of Common Stock entitled to such dividends or distribution are to be determined.

43. Reservation of Stock. The Company will at all times reserve and keep available, solely for issuance and delivery upon the exercise of this Warrant, such number of Warrant Shares and other stock, securities and property, as from time to time shall be issuable upon the exercise of this Warrant.

44. Replacement of Warrants. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and (in the case of loss, theft or destruction) upon delivery of an indemnity agreement (with surety if reasonably required) in an amount reasonably satisfactory

to the Company, or (in the case of mutilation) upon surrender and cancellation of this Warrant, the Company will issue, in lieu thereof, a new Warrant of like tenor.

45. No Rights as Stockholder. Until the exercise of this Warrant, the Registered Holder of this Warrant shall not have or exercise any rights by virtue hereof as a stockholder of the Company. Notwithstanding the foregoing, in the event (i) the Company effects a split of the Common Stock by means of a stock dividend and the exercise price of and the number of shares subject to this Warrant are adjusted as of the date of the distribution of the dividend (rather than as of the record date for such dividend), and (ii) the Registered Holder exercises this Warrant between the record date and the distribution date for such stock dividend, the Registered Holder shall be entitled to receive, on the distribution date, the stock dividend with respect to the shares of Common Stock acquired upon such exercise, notwithstanding the fact that such shares were not outstanding as of the close of business on the record date for such stock dividend.

46. Change or Waiver. Any term of this Warrant may be changed or waived only by an instrument in writing signed by the party against which enforcement of the change or waiver is sought.

47. Headings. The headings in this Warrant are for purposes of reference only and shall not limit or otherwise affect the meaning of any provision of this Warrant.

48. Governing Law. This Warrant will be governed by and construed in accordance with the laws of the State of Delaware.

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Executed as of the date first written above.

SPYGLASS, INC.

By: _____

Title: _____

ATTEST:

PURCHASE FORM

To: _____

Dated: _____

The undersigned, pursuant to the provisions set forth in the attached Warrant (No. ____), hereby irrevocably elects to purchase _____ shares of the Common Stock covered by such Warrant. The undersigned herewith makes payment of \$_____, in lawful money of the United States, representing the full purchase price for such shares at the price per share provided for in such Warrant.

Signature: _____

Address: _____

Confidential Materials omitted and filed separately with the Securities and Exchange Commission. Asterisks denote omissions.

DIGITAL SOFTWARE INTEGRATION CENTER
SOURCING AGREEMENT

This Digital Software Integration Center Sourcing Agreement ("Agreement") shall be effective as of the 1st day of November 1998 (the "Effective Date") by and between General Instrument Corporation, a Delaware corporation having its principal place of business at 101 Tournament Drive, Horsham, PA 19044 ("GI") and Spyglass, Inc., a Delaware corporation having its principal place of business at 1240 East Diehl Road, Naperville, Illinois 60563 ("Spyglass"). GI and Spyglass are hereafter sometimes referred to herein collectively as "Parties" and individually as a "Party."

RECITALS

WHEREAS, GI has designed and developed cable television set-top terminals and GI offers developers of applications for such set-top terminals assistance in connection with the development and integration of such applications; and

WHEREAS, GI desires to take advantage of Spyglass' expertise in Internet and real time operating systems technologies (including Personal Java and Windows CE) and GI desires Spyglass to assist GI in connection with the providing of such integration services to entities desiring to create applications for General Instrument's set-top terminals; and

WHEREAS, in order to assist GI in providing such services, Spyglass shall create and operate a Digital Software Integration Center ("DSIC") to provide development and integration assistance to third party developers; and

WHEREAS, Spyglass has organized Spyglass DSIC, Inc., as a subsidiary (the "Subsidiary") for the purpose of operating and managing the DSIC in accordance with the terms of this Agreement; and

WHEREAS, contemporaneously with the execution of this Agreement, Spyglass, the Subsidiary and GI are entering into an Operating Agreement for the purpose of establishing certain rights and obligations with respect to the Subsidiary.

NOW, THEREFORE, in consideration of the mutual provisions set forth in this Agreement and for other good and valuable

consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties intending to be legally bound, hereby agree as follows:

Confidential Materials omitted and filed separately with the Securities and Exchange Commission. Asterisks denote omissions.

1. DEFINITIONS.

1.1 "Affiliate" shall mean any entity that controls, is controlled by or is under common control with a Party, with control being defined as at least fifty percent (50%) equity ownership or the ability, contractual or otherwise, to dictate or manage the day to day affairs of the controlled party.

1.2 "Confidential Information" shall mean proprietary marketing, technical, or business information, including, without limitation, component and product specifications, algorithms, quality assurance plans, testing and analysis output and results, marketing strategies, business plans and strategies, inventions (whether or not patented or patentable), cost and profit data, distribution and marketing plans, business and financial information, designs, diagrams, blueprints, charts, products and software.

1.3 "Force Majeure" shall mean, without limitation, (a) any act of God, war, riot, fire, rupture, explosion, flood, strike, injunction, governmental action, inaction, or order, unavailability of materials, supplies or energy, or unscheduled outage or shut-down, (b) any lockout or other labor disturbance, even if such lockout or disturbance is within the power of a party to settle, or (c) any other cause, whether similar or dissimilar to the foregoing, which is beyond the reasonable control of a Party (or any Affiliate of such Party) claiming Force Majeure interference with the performance of such Party under this Agreement.

1.4 "Management Committee" shall be a committee established pursuant to Section 4.1 of the Agreement consisting of *** of Spyglass and GI employees.

1.5 "Materials" shall mean software, technical documentation, and other copyrightable materials generated by Spyglass in the course of its performance under this Agreement.

1.6 "Person" shall mean a corporation, an association, a partnership, an organization, a business, a limited liability company, an individual, a government or a political subdivision thereof or a governmental agency.

1.7 "Set-Top Terminal" shall mean a cable television Set-Top Terminal developed by GI and distributed under the designation ***,

or any other similar digital product developed by GI.

1.8 "Work" shall mean the performance by Spyglass of the tasks connected with or arising out of the operation of the DSIC, including the services specified in Article 2.

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2. SPYGLASS' OBLIGATIONS.

2.1 Creation and Staffing of DSIC. Spyglass shall establish a DSIC which will provide the following services to GI:

- a. Assist GI and third party developers in resolving design and analysis issues concerning the Set-Top Terminal architecture.
- b. Provide technical support to application developers and GI customers (but not end-users) purchasing the Set-Top Terminals.
- c. Test applications designed to run on the Set-Top Terminals and to assist third party developers with the integration of such applications into a Set-Top Terminal.
- d. Test and certify that applications developed for a Set-Top Terminal operate on a designated platform.
- e. Any other tasks that the Management Committee determines in accordance with Section 4.1 should be performed by the DSIC.

The particular tasks to be performed by the DSIC shall be set forth in a Statement of Work and the parties shall diligently work to complete such Statement of Work within six (6) weeks following the Effective Date.

2.2 Facilities. The DSIC shall initially be set up in the greater Boston, MA area. Spyglass shall make temporary office and lab space available at *** to employees of GI that visit the DSIC. Spyglass shall provide access to general office services such as telephone, photocopiers, fax, etc. for such GI employees, customers and independent software vendors ("ISVs"). Spyglass shall make available, at GI's expense and upon its request and direction, dedicated office and lab space for GI employees, customers and ISVs.

In the event that the Parties mutually agree that it is appropriate for Spyglass to establish a second DSIC or to relocate a portion of an existing DSIC to another location, the Parties shall negotiate in good faith to reach an agreement on the timing, location, and cost

sharing arrangements for the operation of such additional DSIC.

2.3 Capital Equipment. Spyglass shall be responsible for providing each employee assigned to the DSIC with the same amenities and equipment that are supplied to other Spyglass employees performing similar tasks on behalf of Spyglass apart from the DSIC. At a minimum, each employee shall be provided with access to a personal computer, telephone, e-mail capabilities, and copying machines.

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2.4 Business Entities. Pursuant to the Operating Agreement, which is being executed contemporaneously herewith, Spyglass shall establish the Subsidiary, ninety percent (90%) of the stock of which shall be owned by Spyglass, with the remaining ten percent (10%) to be owned by GI. The sole responsibility of the Subsidiary shall be to operate and manage the DSIC. The employees described in Article 4 that are assigned to work in the DSIC shall be employees of such subsidiary. The terms of the option to purchase the Subsidiary shall be set forth in the Operating Agreement

2.5 Delivery of Technology and Equipment. Spyglass shall purchase and deliver to the DSIC the first *** of hardware and equipment necessary for the implementation of a cable system network (including head end, Set-Top Terminals, cabling, etc.), other capital equipment, software and other technology of GI which is necessary or useful to enable the personnel assigned to the DSIC to operate, test, prototype and understand the operation of the Set-Top Terminals in order to perform the Work and all computers, software, equipment and office supplies for the GI employees, contractors and ISVs working in the DSIC. GI shall make its equipment and technology available to Spyglass ***. To the extent the aggregate cost of said technology and equipment exceeds ***, GI shall purchase and deliver same to the DSIC.

3. GI'S OBLIGATIONS.

3.1 GI Personnel. GI shall make appropriate personnel available to assist Spyglass in gaining an understanding of the design and operation of the Set-Top Terminals. Such personnel shall be available Monday through Friday between the hours of 9:00 a.m. and 5:00 p.m. Eastern Standard Time.

4. PROJECT MANAGEMENT.

4.1 Project Manager. GI and Spyglass shall each appoint a dedicated, full-time Project Manager and an alternate Project Manager who has the authority to assume the duties of the Project Manager in the event the Project Manager is not available. Spyglass' Project

Manager shall be responsible for overseeing the day-to-day operation of the DSIC. All communications between the Parties concerning the day-to-day operation of DSIC shall be made through the respective Project Managers. Each Party shall have a right to change its Project Manager upon a minimum of thirty (30) days' prior written notice to the other Party and subject to the other Party's approval, which approval shall not be unreasonably withheld.

4.2 Management Committee. GI and Spyglass shall establish a DSIC Management Committee each consisting of a mutually agreed upon *** of

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employees of Spyglass and GI. Such committee shall be responsible for the oversight of the DSIC. The committee shall be comprised of at least *** from each Party (which in the case of Spyglass at least *** of which shall be a Subsidiary employee) and at least *** from each Party. During the first year of this Agreement, the Management Committee shall meet on a quarterly basis at the facilities of the DSIC or as otherwise agreed. The Management Committee shall be responsible for establishing goals and objectives of the DSIC, but shall not be responsible for the day to day operation of the DSIC which will be operated by Spyglass. Each Party shall have the right to change its representatives on the Management Committee upon notice to the other Party. A majority vote of the members of the Management Committee is required in order to take any action.

4.3 Personnel. Spyglass shall staff the DSIC with the personnel listed in Exhibit C. Exhibit B lists the minimum qualifications of each Position. Spyglass shall be solely responsible for the hiring and training of all such personnel and for the payment of all wages and benefits for all the employees listed above. With the exception of any Specialists listed in Exhibit B that will provide assistance on limited and/or intermittent aspects of the Work, each of the personnel identified above shall devote their full time and effort and shall be dedicated to the operation of the DSIC.

4.4 Reassignment of Personnel. Spyglass shall have the right, with the consent of GI which shall not be unreasonably withheld, to reassign personnel of the Subsidiary working in the DSIC to other jobs at Spyglass; provided, however, that Spyglass shall not have the right to reassign the employees listed in Exhibit D (the "Key Employees") without the prior written consent of GI. Any reassigned personnel shall be promptly replaced with another employee having the necessary skills and training to perform tasks to which such person is assigned. In the event that GI requires any confirmation with respect to the qualifications of such replacement personnel, Spyglass agrees to make resumes and other appropriate information available to

GI upon its request. Notwithstanding anything to the contrary above, Spyglass shall have the right to temporarily (i.e., for up to thirty (30) business days) reassign an employee of the Subsidiary to work on non-DSIC matters for Spyglass and to assign a skilled, trained and qualified replacement during such temporary period. In the event that any employee (including employees listed in Exhibit D (the "Key Employees")) of the Subsidiary terminates his/her employment with the Subsidiary or the Subsidiary terminates such employment, the Subsidiary shall have the right to hire a qualified person to replace such departing employee.

4.5 Replacement of Spyglass Personnel. If GI determines in good faith that the continued assignment of any Spyglass employee or subcontractor performing or providing Work is not in accordance with the requirements and standards set forth in

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this Agreement, GI shall deliver a notice to Spyglass requesting replacement of such employee. Promptly after its receipt of such request by GI, Spyglass will investigate the matter stated in the request and discuss its findings with GI. If GI still, in good faith, requests replacement of such employee, Spyglass will replace that employee with one of suitable ability and qualifications reasonably acceptable to GI. Nothing in this Agreement shall be deemed to give GI the right to require Spyglass to terminate any Spyglass employee's employment; but is intended only to give GI the right to request that Spyglass discontinue using a specific employee in the performance of the Work.

4.6 Use of Subcontractors. The Parties acknowledge that Spyglass shall have the right to engage subcontractors to satisfy the minimum staffing requirement set forth in this Article 4. Spyglass shall remain responsible for the performance of all obligations performed directly by such subcontractors to the same extent as if such obligations were performed by Spyglass employees. Spyglass shall not disclose any Confidential Information of GI to said subcontractors unless and until such subcontractor has agreed in writing to protect the confidentiality of such Confidential Information by executing GI's form of Non-Disclosure Agreement, which is attached hereto as Exhibit F. Any modifications to said Non-Disclosure Agreement shall require the express written agreement of GI prior to the subcontractor performing any Work. *** relating to such subcontractors will be charged to GI except as otherwise specifically agreed to herein.

4.7 Spyglass' Employees. As mutually agreed, Spyglass may augment the personnel assigned to the DSIC with other Spyglass employees on an as-needed basis. GI shall be charged the rates set forth in Exhibit B for all Work performed by such additional Spyglass

employees. GI shall have the right to request that Spyglass discontinue the use of such additional employees and Spyglass shall comply with such request.

4.8 No joint employment. It is understood that personnel assigned to perform the Work shall be employed solely and exclusively by the Subsidiary or Spyglass and all GI employees used in performing GI's obligations of this Agreement shall be employed solely and exclusively by GI. Thus, GI and Spyglass shall not be considered a joint employer of any employee.

5. PAYMENT TERMS.

5.1 Payment for DSIC Personnel. On a ***basis, Spyglass will prepare and provide to GI an invoice for the applicable personnel that performed services on behalf of the Subsidiary in the **. In consideration of the performance of the obligations set forth in this Agreement, including, but not limited to, Spyglass' compliance with the staffing requirements described in Section 4.3, GI shall pay Spyglass for the Work performed

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during the ** in accordance with the charges set forth in Spyglass' invoice, based upon a daily rate equal to the amounts listed in the Payment Schedule set forth in Exhibit B divided by 260. In accordance with Section 5.3, in the event Spyglass performs the Work in accordance with the terms hereof, GI shall make the following payments to Spyglass: a minimum of ** (individually the "Minimum Payment" and collectively the "Minimum Payments"). Except as otherwise provided in Section 11.5, GI's aggregate responsibility for Minimum Payments hereunder for dedicated personnel and Spyglass Specialists pursuant to Section 5.4, shall be limited to twenty million dollars (\$20,000,000) during the Term. In the event GI incurs twenty million dollars (\$20,000,000) in Work performed hereunder, its total Minimum Payment obligations shall be completely fulfilled and discharged, and shall supercede the obligation to make complete the Minimum Payment obligation of any individual annual period. The Parties also agree to periodically consider other fee arrangements, including performance-based billing as an alternative to the time-based charges specified in this Agreement.

5.2 Payment Terms. GI shall pay all undisputed amounts within ** days of receipt of an invoice from Spyglass. All such payments shall be made in U.S. dollars by check mailed to Spyglass' principal office identified above or by wire transfer to a bank designated by Spyglass. Any amount not paid when due shall bear a late payment charge, until paid, at the rate of ** per annum. In the event that any such amounts are not paid, Spyglass shall provide notice to GI. If GI fails to make appropriate payment by the ** business day

following receipt of such notice, Spyglass shall have the right to suspend the operation of DSIC but in the event of such suspension, GI shall not be relieved of its obligation to make such payments. GI shall pay Spyglass the amount of all governmental taxes, excises, duties and/or other charges (except taxes on or measured by the net income of Spyglass) that Spyglass may be required to pay with respect to the production, sale or transportation of any Materials delivered or any services performed hereunder. If, during the Term, any such taxes, excises, duties and/or charges are imposed upon and required to be paid by Spyglass which were not in effect as of the commencement of the Agreement, and if GI reasonably deems such new taxes, excises, duties and/or charges to be excessive, GI reserves the right to terminate the Agreement, upon *** days' prior notice.

5.3 Calculation of Minimum Payments. At the end of each calendar year of the Term, the Parties shall review the dollar value of the Work performed and invoices paid in relation to the Minimum Payments. GI shall be obligated to make the Minimum Payments set forth in Section 5.1, only in the event that Spyglass performs the Work and provides acceptable invoices totaling at least *** of the annual Minimum Payment for the applicable calendar year. In the event that Spyglass fails to provide this level of Work, GI shall be obligated to make payment only in the amount of the actual Work performed and accurately billed, rather than the specified Minimum Payment.

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5.4 Additional Personnel Charges. In the event that Spyglass agrees to provide any additional services or assign its personnel on a temporary basis to the DSIC, such personnel shall be provided at the rates set forth in Exhibit B. Such amounts for extra personnel shall be billed on a ***basis at the end of each ***and payments of such amounts are due within *** days of receipt of an invoice from Spyglass.

5.5 Additional Expenses. GI shall reimburse Spyglass for all out-of-pocket expenses incurred by Spyglass in leasing, constructing, and operating the space (including general office services) in the DSIC dedicated to the GI employees, customers, and ISVs. GI shall be responsible for reimbursing Spyglass for any out-of-pocket costs incurred by any Spyglass employee performing Work incurred in connection with any travel (transportation, lodging, meals, etc.) by such employee. In addition, GI shall be responsible for paying for any equipment and/or software that Spyglass is obligated to purchase for the Subsidiary employees that it does not purchase for its other employees. Such costs shall be paid within *** days of receipt of an invoice from Spyglass. GI shall also pay all reasonable and necessary costs incurred by Spyglass in the temporary or permanent relocation of employees that are relocated at the request of GI.

Spyglass shall be responsible for all other costs incurred in connection with the performance of the Work.

6. ***.

GI expects, ***. The ***taken as a whole, are ***. In addition, if ***. If Spyglass enters into ***, then Spyglass shall promptly notify GI, and GI shall have the right to ***. If any ***. GI *** may request *** signed by Spyglass's Chief Financial Officer, and Spyglass will comply ***, to insure that ***.

7. CONFIDENTIAL INFORMATION.

GI and Spyglass entered into a Non-Disclosure Agreement dated March 4, 1998 ("NDA") for the purpose of protecting the confidentiality of proprietary information disclosed by either Party ("Discloser") to the other Party ("Recipient") in connection with a potential business relationship between the parties relating to Spyglass' internet technology, applications, and/or services for use with GI's digital set top terminals.

In connection with the NDA and this Agreement, the Parties have disclosed and furnished and in the future may disclose or furnish to each other Confidential Information. Confidential Information does not include information that: (a) is or becomes part of the public domain through no fault or breach on the part of the Recipient, any of its subsidiaries, affiliates or persons to whom Confidential Information is disclosed; (b) was known to Recipient or any of its subsidiaries or affiliates free of any obligation of confidentiality at the time of Discloser's communication thereof to Recipient and such knowledge can be proven by appropriate evidence; (c) is subsequently rightfully obtained by Recipient or any of its subsidiaries or affiliates from a third party without an obligation to keep such information confidential; (d) is independently developed

by Recipient or any of its subsidiaries or affiliates without the use of any Confidential Information or any breach of this Agreement or the NDA; (e) is approved in writing for public release by Discloser; or (f) is required to be disclosed by governmental or judicial action, provided that the Recipient has first given Discloser reasonable notice of such requirement and fully cooperates with Discloser in seeking confidential treatment for any such disclosure.

Confidential Information provided in tangible form shall be clearly marked as proprietary. With respect to any Products, any technical information, including but not limited to circuit layout, design, or software, embedded in any such Product is Confidential Information notwithstanding the absence of any proprietary marking on such Product. Confidential Information provided orally will be considered proprietary if Discloser says it is proprietary at the time of oral disclosure and summarizes it in a proprietary writing provided to

Recipient within thirty (30) days of the oral disclosure. All of the protection and restrictions contained in this Agreement as to the use and disclosure of Confidential Information shall apply during said thirty (30) day period.

Recipient shall:

- (a) hold Confidential Information in confidence using the same degree of care as it normally exercises to protect its own proprietary information,
- (b) restrict disclosure and use of the Confidential Information to employees (including any contractors or consultants) with a need-to-know, and not disclose it to any other parties,
- (c) advise those employees, contractors and consultants of their confidential obligations with respect to the Confidential Information and that such disclosures are subject to the terms and conditions of this Article,
- (d) not copy, duplicate, reverse engineer or decompile Confidential Information, and
- (e) use the Confidential Information only in furtherance of performance under this Agreement and shall not use Confidential Information for its own benefit.

Neither the disclosure nor furnishing of Confidential Information by either Party shall be construed as granting to the Recipient either expressly or by implication, estoppel or otherwise, any license or right to make use of such Confidential Information, except as otherwise expressly provided in this Agreement, and Recipient agrees that neither it nor any of its subsidiaries, affiliates, officers, directors, employees, agents or representatives will make use thereof without the specific and express written consent of Discloser prior to such use. Furthermore, Recipient agrees that the Confidential Information is the sole property of the Discloser and that Recipient has no proprietary interest in such information whatsoever.

WITHIN TEN (10) BUSINESS DAYS AFTER RECEIPT OF DISCLOSER'S WRITTEN REQUEST, RECIPIENT SHALL RETURN TO DISCLOSER ALL CONFIDENTIAL INFORMATION AND ALL MATERIALS CONTAINING CONFIDENTIAL INFORMATION, INCLUDING BUT NOT LIMITED TO DOCUMENTS, DRAWINGS, PROGRAMS, LISTS, MODELS, RECORDS, COMPILATIONS, NOTES, EXTRACTS AND SUMMARIES, WHETHER PREPARED BY DISCLOSER OR RECIPIENT, OR ANY OF ITS SUBSIDIARIES, AFFILIATES, OFFICERS, DIRECTORS, EMPLOYEES, AGENTS OR REPRESENTATIVES, EXCEPT FOR ONE COPY WHICH MAY BE RETAINED IN THE FILES OF THE PATENT OR LAW DEPARTMENT OF RECIPIENT, OR AT THE OPTION OF DISCLOSER, SHALL DESTROY SUCH CONFIDENTIAL INFORMATION AND MATERIALS AND PROVIDE DISCLOSER WITH AN AFFIDAVIT ATTESTING TO SUCH DESTRUCTION.

Obligations imposed by this Article shall survive for a period of five (5) years after termination or expiration of this Agreement for any reason.

Recipient acknowledges and agrees that unauthorized use or disclosure of Confidential Information may cause serious, irreparable and significant harm, damage or loss to Discloser which will be difficult or impossible to ascertain. Accordingly, Recipient agrees that Discloser shall have, in addition to all other remedies at law or in equity, the right to seek immediate injunctive relief to enforce Recipient's obligations under this Agreement.

Each Party agrees that it will not export or re-export, directly or indirectly, any of the other Party's Confidential Information or any products or materials of the other Party's to any country for which the United States of America, at the time of export or re-export, requires an export license or other governmental approval, without first obtaining such license or approval.

The terms and conditions of this Article supersede all prior agreements between the Parties with respect to the subject matter hereof, including the NDA, and any disclosures made under the NDA shall be governed by the provisions of this Article.

8. REPRESENTATIONS, WARRANTIES AND LIMITATIONS OF LIABILITY.

8.1 Representation and Warranties. Spyglass represents and warrants to GI that:

- i) all Work shall be performed in accordance with each of the terms and conditions set forth in this Agreement, including, but not limited to, the SOW;
- ii) it and its performance of the Work shall comply with all applicable laws;
- iii) the Work shall be performed in a professional manner and of a high quality, consistent with the Internet industry standards; and
- iv) its computer systems will allow Spyglass to continue to do business as a viable entity and to accurately process date/time data (including, but not limited to, calculating, comparing, and sequencing) from, into, and between the twentieth and twenty-first centuries, and the years 1999 and 2000, including leap year calculations
- v) that all Materials prepared by Spyglass in the performance of the Work will

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accurately process correctly inputted date/time data (including, but not limited to calculating, comparing and sequencing) from, into and between the twentieth and twenty-first centuries and the years 1999 and 2000, including leap year calculations and Spyglass makes no

other representation or warranty regarding Year 2000 Compliance. In the event of any breach of this warranty, Spyglass shall restore the Materials to the same level of performance as warranted herein, or repair or replace the Materials with conforming Materials so as to minimize interruption to GI and its customers' ongoing business processes, at Spyglass' sole cost and expense.

- vi) that the prices charged to GI for any licenses and/or other intellectual property rights are in compliance with the requirements of Article 6.

8.2 Joint Representations. GI and Spyglass hereby each represent and warrant that it has all requisite corporate power and authority to enter into this Agreement and to perform the obligations set forth herein. In addition, each Party hereby represents and warrants that the execution, delivery and performance of this Agreement will not result in a violation of any agreement to which such Party is subject. EXCEPT AS PROVIDED ABOVE, NEITHER PARTY MAKES ANY OTHER REPRESENTATIONS OR WARRANTIES CONCERNING THE WORK TO BE PROVIDED HEREUNDER OR ANY SOFTWARE OR OTHER PRODUCTS TO BE DEVELOPED HEREUNDER AND EACH PARTY HEREBY DISCLAIMS ALL WARRANTIES, WHETHER EXPRESS OR IMPLIED, ORAL OR WRITTEN, ARISING OUT OF THIS AGREEMENT INCLUDING, WITHOUT LIMITATION, ALL IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR ANY PARTICULAR PURPOSE OR NON-INFRINGEMENT.

8.3 Limitation of Liability. EXCEPT FOR PAYMENTS SPECIFIED IN EXHIBITS B AND C TO THIS AGREEMENT AND AS PROVIDED BELOW IN ARTICLES 9 AND 10, NEITHER PARTY SHALL HAVE ANY LIABILITY TO THE OTHER PARTY FOR ANY CAUSE WHATSOEVER WHERE THE AGGREGATE LIABILITY FOR DIRECT DAMAGES ARISING HEREUNDER DURING THE TERM IS LESS THAN ***. IN THE EVENT THE AGGREGATE LIABILITY FOR DIRECT DAMAGES ARISING HEREUNDER DURING THE TERM EXCEEDS ***, EITHER PARTY SHALL BE RESPONSIBLE FOR ALL DIRECT DAMAGES UP TO A MAXIMUM OF ***. IN NO EVENT SHALL EITHER PARTY BE LIABLE FOR ANY LOSS OF DATA, PROFITS, LOSS OF USE, OR FOR ANY SPECIAL, CONSEQUENTIAL, INCIDENTAL OR OTHER INDIRECT DAMAGES ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT; PROVIDED, HOWEVER, THAT THE LIMITATIONS OF LIABILITY SET FORTH IN THIS ARTICLE 8 WILL NOT APPLY WITH RESPECT TO: (I) DAMAGE OCCASIONED BY THE WILLFUL MISCONDUCT OF A PARTY; (II) CLAIMS THAT ARE SUBJECT TO THE INDEMNIFICATION PROVISIONS SET FORTH HEREIN; OR (III) DAMAGES OCCASIONED BY THE BAD FAITH TERMINATION OF THIS AGREEMENT BY EITHER PARTY. EACH PARTY SHALL HAVE A DUTY TO MITIGATE DAMAGES FOR WHICH THE OTHER PARTY IS RESPONSIBLE.

9. GENERAL INDEMNIFICATION AND INSURANCE.

9.1 By Spyglass. Spyglass shall defend, indemnify, and hold GI, its subsidiaries and Affiliates, and each of their respective employees, officers, directors, attorneys, agents, and

representatives, harmless from and against any and all claims, liabilities, expenses, losses, demands, damages, fines, penalties, and causes of action of every kind and character from any cause whatsoever, made, incurred, sustained, or initiated by any Person (including any Spyglass employee, contractor, representative or any of their respective family members), arising out of, incident to, or in connection with the performance, non-performance, or purported performance by Spyglass of this Agreement, or breach of its terms except to the extent attributable to the negligence or willful misconduct of GI.

The obligations of this clause shall survive termination of this Agreement.

9.2 By GI. GI shall defend, indemnify, and hold Spyglass, its subsidiaries and Affiliates, and each of their respective employees, officers, directors, attorneys, agents, and representatives, harmless from and against any and all claims, liabilities, expenses, losses, demands, damages, fines, penalties, and causes of action of every kind and character from any cause whatsoever, made, incurred, sustained, or initiated by any Person (including any GI employee, contractor, representative or any of their respective family members), arising out of, incident to, or in connection with the performance, non-performance, or purported performance by GI of this Agreement, or breach of its terms except to the extent attributable to the negligence or willful misconduct of Spyglass.

9.3 Minimum Acceptable Levels of Insurance. Each Party shall, at all times during the Term, at its sole cost and expense, and thereafter for so long as is reasonable and customary in the industry, or for such shorter period as the other Party requests, in consideration of the particular circumstances, carry and maintain the insurance coverage listed below with insurers having a "Best's" rating of A+X or better:

- a) Workers' Compensation insurance as required under applicable state law including Employer's Liability \$100,000 (per accident) \$500,000 (disease - policy limit) \$100,000 (disease - per employee);
- b) Commercial General Liability insurance covering claims for bodily injury, death, personal injury or property damage occurring or arising out of the performance of this Agreement, including coverage for independent contractor's protection (required if any work will be subcontracted), premises-operations, products/completed operations and contractual liability

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with respect to the liability assumed by each Party hereunder. The limits of insurance shall not be less than:

Each Occurrence	***
General Aggregate Limit	***
Products- Completed Broad Form Property Damage	***
Personal and Advertising Injury Limit	***

- c) Errors and Omissions coverage sufficiently broad enough to include the Work, and specifically software development and certification with limits of insurance not less than ***.
- d) Should performance of this Agreement involve any use of automobiles, comprehensive automobile liability insurance covering the ownership, operation and maintenance of all owned, non-owned and hired motor vehicles with limits of not less than *** Combined Single Limit (Bodily Injury/Property Damage) for bodily injury and property damage.

9.4 Waiver of Subrogation; Evidence of Insurance. Each Party agrees that its, its insurer(s) and anyone claiming by, through, under or in such Party's behalf shall have no claim, right of action or right of subrogation against the other Party and the other Party's affiliates, directors, officers employees and customers based on any loss or liability insured against under the insurance required by this Agreement. The insurance limits required in this Article may be obtained through any combination of primary and excess or umbrella liability insurance. The insured Party shall forward to the other Party, certificates of such insurance upon execution of this Agreement and upon any renewal of such insurance during the Term. The certificates shall provide that (a) the other Party be named as an additional insured as its interests may appear with respect to this Agreement, (b) thirty (30) days' prior written notice of cancellation of, material change or exclusions in the policy to which certificates relate shall be given to the other Party, and (c) coverage is primary and not excess of, or contributory with, any other valid and collectible insurance purchased or maintained by the other Party. The fulfillment of such obligations, however, shall not otherwise relieve the insured Party of any liability assumed hereunder or in any way modify the insured Party's obligations to indemnify the other Party or end users under this Agreement.

9.5 Maintenance of Existing Coverage. Spyglass shall not at any time after the expiration or termination of this Agreement take any action to alter, impair or cancel any insurance coverage that may apply with respect to the period during which this Agreement was in effect.

10. INTELLECTUAL PROPERTY INDEMNIFICATION.

10.1 Spyglass Indemnity. Spyglass agrees to indemnify, defend and hold harmless GI, from and against any claims by third parties to the extent based on a claim that any Work performed or Materials provided by Spyglass: (a) infringes a copyright, or patent, or (b) constitutes a misappropriation of another party's trade secret or other proprietary information. Spyglass will bear the expense of such defense and pay any Losses attributable to such claim. Notwithstanding anything to the contrary elsewhere in this Section 10.1, Spyglass will have no obligation under this Article with respect to any Losses arising from or in connection with any such claim to the extent such Losses are caused by:

- a. modifications of Materials by GI or its agents; or
- b. GI's subsequent combination of any Materials with, or operation or use thereof in combination with, items not furnished or specified by Spyglass (other than the combination thereof with other items required to enable such item to be used by GI for its intended purposes);
- c. Spyglass' complying with specifications of GI; or
- d. a breach of the terms of this Agreement by GI, material to the claims of Losses incurred by Spyglass.

10.2 GI Indemnity. GI agrees to indemnify, defend and hold harmless Spyglass against any claims to the extent based on a claim that (1) GI provided software, or (2) any other software that Spyglass is required by GI to use under this Agreement or any part thereof, (a) infringes a copyright or patent or (b) constitutes a misappropriation of another party's trade secret or other proprietary or information. GI will bear the expense of such defense and pay Losses attributable to such claim. Notwithstanding anything to the contrary elsewhere in this Section 10.2, GI will have no obligation under this Article with respect to any Losses arising from or in connection with any such claim to the extent such Losses are caused by:

- a. modifications made by Spyglass or its agents to an item provided by or for GI (other than modifications made by or at the specific direction of GI);
- b. the combination thereof by Spyglass or its agents with, or the operation or use thereof in combination with, items not furnished or specified by GI (other than the combination thereof with other items required to enable such item to be used by Spyglass for its intended purposes); or

- c. a breach of the terms of this Agreement by Spyglass material to the claims or Losses incurred by GI.

10.3 Rights of Indemnitor. If any software, hardware or other materials becomes the subject of a claim under this Article, or in the indemnitor's reasonable opinion is likely to become the subject of such a claim, then the indemnitor may, at its option, (i) replace or modify the software, hardware or other materials to make it non-infringing or may cure any claims of misuse of another's trade secret, or (ii) procure for the indemnitee the right to continue using the software or hardware or other materials pursuant to this Agreement, or (iii) replace the software or hardware with reasonably equivalent software or hardware, acceptable to the indemnitee, which is non-infringing or which is free of claimed misuse of another's trade secret or (iv) modify the Work or Materials to eliminate the infringing activity.

10.4 Indemnification Procedures.

- a. Notice and Control. The indemnification obligations set forth in Articles 9 and 10 will not apply unless the Party claiming indemnification:
 - (i) Notifies the other Party promptly of any matters in respect of which the indemnity may apply and of which the notifying Party has actual knowledge, in order to allow the indemnitor the opportunity to investigate and defend the matter; provided, that the failure to so notify will only relieve the indemnitor of its obligations under this article if and to the extent that the indemnitor is prejudiced thereby; and
 - (ii) Gives the other Party reasonable opportunity to control the response thereto and the defense thereof, including any agreement relating to the settlement thereof; provided that, the indemnitee will have the right to participate in any legal proceeding to contest and defend a claim for indemnification involving a third party and to be represented by legal counsel of its choosing, all at the indemnitee's cost and expense.
- b. The indemnitor will not be responsible for any settlement or compromise made without its consent. The indemnitee agrees to cooperate in good faith with the indemnitor at the request and expense of the indemnitor.

11. TERM.

11.1 Term. The initial term of this Agreement will begin on the Effective Date and will terminate on October 31, 2001 (the "Term"). GI may, upon at least six (6) months' prior written notice to Spyglass, elect to extend the Term for an additional period of one (1) year. The Minimum Payment for this renewal period shall be ***. During the renewal period, the Payment Schedules set forth in Exhibits B and C shall increase by *** over the immediately preceding annual period.

11.2 Termination for Change of Control. GI shall have the right to terminate this Agreement in the event that: i) any of the companies listed on Exhibit E acquire beneficial ownership (within the meaning of Section 13(d) of the Securities Exchange Act of 1934) of shares of Common Stock of Spyglass representing 20% or more of the outstanding Common Stock of Spyglass; or ii) GI exercises its purchase option under the Operating Agreement.

11.3 Termination for Cause. This Agreement may be terminated prior to the expiration of its Term (i) by either Party in the event the other Party materially breaches a provision of this Agreement and the breaching Party fails to cure such breach, (including a failure to make payments when due) within thirty (30) days following receipt of notice of such breach from the non-breaching Party; (ii) by either Party in the event any assignment is made by the other Party for the benefit of creditors, or if a receiver, trustee in bankruptcy or similar officer shall be appointed to take charge of any and all of the other parties property, or if the other party files a voluntary petition under federal bankruptcy laws or similar state statutes or such a petition is filed against the other party and is not dismissed within sixty (60) days; (iii) if the Parties cannot agree upon a Statement of Work within the six (6) week period set forth herein, or as otherwise agreed to by the Parties.

11.4 Termination based on Economic Conditions. At any time after the first anniversary of the Effective Date, GI may terminate this Agreement upon *** days' prior written notice if it determines in its reasonable judgment that supply or market conditions will not support the continued development and/or production of its products that utilize the Work, provided that GI pays Spyglass upon termination, the dollar amount equal to ***.

11.5 Effects of Termination.

- a. Upon expiration or termination of this Agreement for any reason, GI shall remain liable for any charges, payments or expenses due to Spyglass which accrued prior to the termination date. Upon any

termination of this Agreement, in the event that any employees of the Subsidiary are not absorbed by Spyglass (which shall have the first right to hire the employees working for the Subsidiary) or GI, GI shall pay all reasonable costs incurred by Spyglass in connection with the termination of such personnel, which Spyglass would otherwise be obligated to pay pursuant to its severance policies then in effect. A copy of Spyglass' severance

policies as of the Effective Date are attached hereto as Exhibit G, and Spyglass shall provide GI with each revision to said policies throughout the Term. In addition, GI shall pay any reasonable costs which Spyglass is obligated to pay with respect to any facilities or amenities provided to the Subsidiary personnel, as well as to the GI employees, customers and ISVs working in the DSIC.

- b. Upon expiration or termination of this Agreement for any reason, GI shall have the right but not the obligation, to purchase any equipment purchased by Spyglass pursuant to Section 2.5 at Spyglass' depreciated book value. Additionally, Spyglass agrees that it shall not under any circumstances, sell or transfer such equipment to any of the entities set forth in Exhibit E.

12. DISPUTE RESOLUTION.

12.1 Management Committee Review. During the Term, disputes, controversies or claims may arise between the Parties. To minimize the expense to and impact on each party of formally resolving such disputes, controversies and claims, the following procedures shall be followed.

- a. If the Parties are unable to resolve a dispute, controversy or claim, upon the provision of notice by either party to the other Party, the matter will immediately be referred to the Management Committee.
- b. The representatives of the Parties on the Management Committee will meet within ten (10) business days of their receipt of the notice for the purpose of resolving the dispute, controversy or claim. Such Management Committee representatives will discuss the relevant issues and will attempt to negotiate a mutually satisfactory resolution in good faith, without using formal proceedings.
- c. During the course of negotiations, all reasonable requests made by one Party to another for

non-privileged information, reasonably related to this Agreement, will be honored to advise a Party of the other's position.

- d. No formal proceedings for the resolution of a dispute, controversy or claim may be commenced until either or both of the appointed senior management representatives conclude in good faith that amicable resolution through continued negotiation of the matter is not likely.

12.2 Continuation of Obligations. Except for failure to make payments or where clearly prevented by the dispute, both Parties agree to continue performing their respective obligations under this Agreement while the dispute is being resolved unless and until such obligations are terminated or expire in accordance with the provisions of this Agreement.

12.3 Arbitration.

- a. Procedures. Any dispute, controversy or claim arising out of or related to this Agreement that the parties are unable to resolve through informal discussions or negotiations as provided above in Section 12.1 will be submitted to binding arbitration.
- b. The Party requesting arbitration will notify the American Arbitration Association ("AAA") and the other Party in writing describing in reasonable detail the nature of the dispute, and will request that the AAA furnish a list of five (5) possible arbitrators who shall have at least five (5) years experience in information and cable television technology matters. Each Party shall have fifteen (15) days to reject two of the proposed arbitrators. If only one individual has not been so rejected, he or she shall serve as arbitrator; if two or more individuals have been so rejected, the AAA shall select the arbitrator from those individuals.
- c. The arbitration will be governed by the Commercial Arbitration Rules of the AAA, except as expressly provided in this Article. However, the arbitration will be administered by any organization mutually agreed upon by the Parties. If the Parties are unable to agree upon the organization to administer the arbitration, it will be administered by the AAA. The arbitrator may not amend or disregard any provisions of this Article.
- d. The arbitrator will allow such discovery as is

appropriate to the purposes of arbitration in accomplishing fair, speedy and cost effective resolution of disputes. The arbitrator will reference the rules of evidence of the Federal Rules of Civil Procedures then in effect in setting the scope and direction of such discovery. The arbitrator will not be required to, but is not prohibited from, making findings of fact or rendering opinions of law.

- e. The arbitration shall be held in Delaware and shall commence within thirty (30) days or the earliest available date set by the AAA, whichever is earlier.
- f. The decision of an award rendered by the arbitrator will be final and binding on the Parties. Judgment on the award may be entered in and enforced by any court of competent jurisdiction.
- g. Each Party agrees to pay to bear joint and equal responsibility for all fees payable to the American Arbitration Association and the arbitrator with respect to any arbitration initiated hereunder.
- h. In no event shall the arbitrator hear or rule upon a demand for penalties or punitive damages. Punitive damages are expressly excluded from this arbitration provision and each Party agrees it has no right to recover, and hereby waives the right to recover, punitive damages from the other Party. Any award which includes or purports to include penalties or punitive damages shall be void as to the amount of penalties or punitive damages awarded.

12.4 Enforcement. Other than those matters involving injunctive relief as a remedy, or any action necessary to enforce the award of the arbitrator, the provisions of this Section are a complete defense to any suit, action or other proceeding instituted in any court or before any administrative tribunal with respect to any dispute, controversy or claim arising out of or related to this Agreement or the creation, validity, interpretation, breach or termination of this Agreement. Nothing in this Section prevents the Parties from exercising the termination rights set forth in this Agreement.

12.5 Work During Arbitration. Spyglass shall continue to provide the Work in accordance with this Agreement, and GI will continue to make payments during the arbitration proceedings unless Spyglass is bringing an action under this Section for nonpayment by GI, in which case the continued provision of Work is contingent upon GI's placing the unpaid amounts in an escrow account pending resolution of the dispute.

12.6 Enforcement; Immediate Injunctive Relief. The Parties agree that the exclusive method of dispute resolution is set forth in the procedures established in Section 12.3 and the rights and remedies provided in this Agreement are the exclusive rights and remedies for the Parties as against each other and there shall be no other rights or remedies whether they be in contract, tort, strict liability, equity or otherwise. The Parties agree that the only circumstances in which disputes between them will not be subject to the arbitration provisions of this Agreement are instances where the damages to a Party resulting from a breach will be so immediate, so large or severe, and so incapable of adequate redress after the fact that a temporary restraining order or other immediate injunctive relief is the only adequate remedy. If a Party files a pleading with a court seeking immediate injunctive relief and the injunctive relief sought is not awarded in substantial part, the Party filing the pleading seeking immediate injunctive relief shall pay all of the costs and attorneys' fees of the other Party.

13. GENERAL.

13.1 Notices. Wherever one Party is required or permitted to give written notice to the other under this Agreement, such notice will be given by hand, by certified U.S. mail, return receipt requested, by overnight courier, or by fax and addressed as follows:

If to GI:	with a copy to:
General Instrument Corporation 101 Tournament Drive Horsham, PA 19044	General Instrument Corporation 101 Tournament Drive Horsham, PA 19044
Attn: Exec. VP, Business Development Phone: (215) 323-1112 Fax: (215) 323-1111	Attn: Senior VP and General Counsel Phone: (215) 323-1203 Fax: (215) 323-1293

If to Spyglass:	with a copy to:
Spyglass, Inc. 1240 East Diehl Road Naperville, Illinois 60563	Hale and Dorr LLP 60 State Street Boston, Massachusetts 02109
Attn: Gary Vilchick Phone: (630) 245-4610 Fax: (630) 245-6697	Attn: Michael J. Bevilacqua, Esq. Phone: (617) 526-6448 Fax: (617) 526-5000

All such notices shall be effective upon receipt. Either Party may designate a different notice address from time to time upon giving ten (10) days' prior written notice thereof to the other

Party.

13.2 Relationship of the Parties.

- a. Spyglass is and shall at all times during the Term remain, an Independent Contractor. This Agreement will not be construed as creating any partnership, agency relationship or other form of legal association that would impose liability upon one Party for the other Party's actions or failure to act. Spyglass has no authority, express or implied, to assume or create any obligations, responsibility, or liability on behalf of GI or to bind GI in any manner whatsoever and GI has no authority, express or implied, to assume or create any obligations, responsibility, or liability on behalf of Spyglass or to bind Spyglass in any manner whatsoever.
- b. Each Party shall be responsible for the management, direction and control of its employees and other agents and such employees and other agents will not be employees of the other Party.
- c. Except where and to the extent this Agreement expressly provides that Spyglass will perform certain identified services as agent for GI, the Work shall be performed under the control, management and supervision of Spyglass.

13.3 Assignment. Neither Party may, or will have the power to, assign this Agreement or any of its rights or obligations hereunder without the prior written consent of the other Party. Notwithstanding any provision to the contrary, either Party will be permitted to assign all or any portion of its rights and obligations under this Agreement to:

- a. another entity that acquires all or substantially all of its assets;
- b. an Affiliate; or
- c. a successor in a merger, acquisition or divestiture of all or a portion of such Party.

Such assignment shall not relieve the assigning Party of its obligations under this Agreement. This Agreement will be binding on the Parties and their respective successors and permitted assigns. Except as expressly permitted in this Agreement any other purported assignment of the rights or obligations of a Party hereunder shall be null, void and of no force or effect.

13.4 Counterparts. This Agreement may be executed in one or more parts, all of which when taken together will constitute one single agreement between the Parties.

13.5 Headings. The Section headings used in this Agreement are included for ease of reference and convenience and shall not be considered in interpreting or construing this Agreement.

13.6 Compliance with Laws. Spyglass' performance under this Agreement, as well as all Work provided hereunder, shall comply with all applicable U.S. federal, state and local laws and ordinances, and all orders, rules, regulations and requirements thereunder.

13.7 Governing Law. This Agreement shall be governed by and construed in accordance with laws of the State of Delaware, without regard to its choice of law provisions.

13.8 Waiver. The waiver by either Party of a breach or a default of any provision of this Agreement by the other Party shall not be construed as a waiver of any succeeding breach of the same or any other provision, nor shall any delay or omission on the part of either Party to exercise or avail itself of any right, power or privilege that it has, or may have hereunder, operate as a waiver of any right, power or privilege by such Party.

13.9 Construction. The negotiating and drafting of this Agreement has been participated in by each Party and not by either Party to the exclusion of the other and, for all purposes, this Agreement shall be deemed to have been drafted jointly by the Parties. The language used in this Agreement shall be deemed to be the language chosen by the Parties to express their mutual intent, and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement.

13.10 Survival. The obligations and rights of the Parties set forth in Articles 5, 7, 9, 10, and 13, and Sections 8.2, 11.6, and 12.3 shall survive any expiration or termination of this Agreement

13.11 Severability. Any provisions hereof which are prohibited or unenforceable in any jurisdiction shall, as to such jurisdictions, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

13.12 Excused Performance. A Party shall be excused from performing an obligation under this Agreement and shall not be considered in default to the extent such Party's performance has been prevented, in whole or in part, by (i) an act of Force Majeure, or (ii) the non-performance of any other Party to this Agreement;

provided, however, that a Party shall not be so excused from the performance of its obligations under this Agreement to the extent that the other Party's non-performance is attributable to the Party seeking to be excused from the performance of its obligations under this Agreement failing to perform its obligations under this Agreement.

13.13 Suspension of Performance. If either Party is prevented by Force Majeure from performing any of its obligations under this Agreement, other than making payments due and payable hereunder, it is agreed that upon such Party's providing written notice and full particulars of such Force Majeure to the other Party as soon as practicable after commencement of the occurrence of the cause relied on, the obligations of the Party giving such notice, so far as they are affected by such Force Majeure, shall be suspended but only during the continuation of such inability, and the affected Party shall undertake to remedy such cause or inability as soon as practicable.

13.14 Force Majeure Notification. The notice referred to in the preceding Section shall be given by the Party claiming Force Majeure hereunder and shall describe the nature of the Force Majeure event, the extent of the impact on the ability of such Party to perform its obligations hereunder and the expected timetable for remedying the Force Majeure. If it appears that the Force Majeure cannot be remedied, the notice shall so state. Should any Force Majeure event occur, the Parties agree to cooperate to determine how such event can best be remedied to avoid, or minimize the duration of, any suspension hereof including, but not limited to, good faith negotiations to modify this Agreement to allow for the continuation of the affected performance. When the event of Force Majeure has ceased or been remedied, the Party whose performance has been affected shall provide written notice to the other Party stating that the Force Majeure event has ceased or been remedied.

13.15 Press Release. Neither Party shall issue any form of news release regarding this Agreement or any other arrangement entered into in connection therewith, without the prior written consent of the other Party, which consent shall not be withheld unreasonably, except with respect to matters required to be disclosed pursuant to applicable securities laws.

13.16 Entire Agreement. This Agreement and all Exhibits and attachments hereto as well as the NDA (in accordance with the provisions of Article 7) constitute the final written expression of all terms of the Agreement relating to the transactions described herein. This Agreement supersedes all previous communications, representations, agreements, promises or statements, either oral or written, with respect to such transactions. No addition to or modification of any provision of this Agreement will be binding

unless made in writing and signed by both Parties.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their duly authorized representatives as of the Effective Date.

GENERAL INSTRUMENT CORPORATION

SPYGLASS, INC.

By: /s/ Richard C. Smith

By:/s/ Michael F. Tyrrell

Name: Richard C. Smith

Name: Michael F. Tyrrell

Title: Executive VP

Title: EVP Business Development

Date: 10/19/98

Date: 10/19/98

EXHIBIT A

Statement of Work

TO BE PREPARED JOINTLY BY THE PARTIES IN ACCORDANCE WITH SECTION 2.1

Confidential Materials omitted and filed separately with the Securities and Exchange Commission. Asterisks denote omissions.

EXHIBIT B

Payment Schedule

Dedicated ResourcesResources

Position	Annual Rate Year 1	Annual Rate Year 2	Annual Rate Year 3
Project Manager	***	***	***
Architect	***	***	***
Engineer	***	***	***
QA Specialist	***	***	***
Technical Doc Specialist	***	***	***
Practice Manager	***	***	***
Systems Administrator	***	***	***
Administrator	***	***	***

The above rates shall be *** for any dedicated resources that are permanently assigned to a GI facility.

Spyglass SpecialistsSpecialists

Position	Hourly Rate Year 1	Hourly Rate Year 2	Hourly Rate Year 3
Project Manager	***	***	***
Architect	***	***	***
Engineer	***	***	***
QA Specialist	***	***	***
Technical Doc Specialist	***	***	***
Practice Manager	***	***	***

Position Descriptions

Project Manager _ Knowledgeable in all aspects of software product development cycles and software support issues. Spyglass Product Managers will have day to day management responsibility of the different groups within the DSIC. Core functions of the Spyglass Program Manager are:

- [_] Responsible for day-to-day management of the project groups (i.e. Development, SI&T, etc.)
- [_] Responsible for the development and management of project work plans
- [_] Communicate project direction, status, issues, and changes to the appropriate management personnel
- [_] Manage project issues and change management processes
- [_] Monitor project progress and project reporting related status
- [_] Assist in managing project costs within the budget

Architect _ Knowledgeable in all aspects of the technologies being implemented and able to develop large scale system design. Spyglass Architects focus at a strategic level as opposed to tactical implementation. Core functions of the Spyglass Architects are:

- [_] Provide technical understanding of the project
- [_] Provide technical understanding of the tools and technologies being deployed
- [_] Provide technical leadership in the system design and architecture
- [_] Participate in appropriate project planning sessions
- [_] Responsible for dissemination of appropriate technical knowledge to the client

Engineer _ Knowledgeable in the technologies being implemented. Spyglass engineers will provide support to General Instrument as appropriate. Core functions of the Spyglass Engineers are:

- [_] Participate in appropriate aspects of application development (i.e. analysis, design, construction, testing & implementation)

- Participate in appropriate project planning sessions
- Responsible for the completion of assigned program deliverables
- Responsible for dissemination of appropriate technical knowledge to client
- Provide technical support to GI customers
- Solve technical problems in area of expertise
- First point of contact for customer service

QA Specialist _ Knowledgeable in software engineering development. Spyglass QA specialists will be responsible mainly in the SI&T and certification functions. Core functions of the Spyglass QA Specialist are:

- Design, implement, and execute test procedures and cases
- Develop the associated automation framework for testing
- Recognize additional testing requirements within existing test procedures and cases
- Independently prepare expected results for test cases
- Identify, document, and resolve all discrepancies

Technical Documentation Specialist _ Experienced in a wide range of technical communications deliverables. Spyglass Technical Documentation Specialists will document the technical information regarding the DSIC. Core functions of the Spyglass Technical Documentation Specialist are:

- Responsible for the creation of technical documentation
- Responsible for the creation of any training materials
- Responsible for the creation of the acceptance plan
- Responsible for maintenance of a bulletin board for support issues

Practice Manager _ Knowledgeable in business and technical issues affecting the organization and industry. Spyglass Management Consultants will oversee and manage the entire DSIC. Core functions of the Spyglass Management Consultant are:

- Responsible for the relationship with General Instrument and overall success of the DSIC
- Provide business and technical understanding of the organization and industry
- Provide knowledge regarding technologies and deliverables
- Provide resolutions to outstanding issues
- Assist in project planning and project charter development
- Provide business process support
- Overall budget and project responsibility

System Administration _ Experienced in the installation and maintenance of hardware and software to support the day to day operations of the DSIC. Spyglass System Administrators will setup remote facilities for the DSIC. Core functions of the Spyglass System Administrator are:

- Responsible for the installation and maintenance internal

networks

- Responsible for the installation and maintenance of day to day hardware and software needs
- Purchase, negotiate, and research new hardware and software
- Maintain all of the internal infrastructure for remote sites
- Maintain relationships with external vendors in regards to infrastructure hardware and software

Administration _ Experienced in providing support to the day to day operations of the DSIC. Core functions of the Spyglass System Administrator are:

- Responsible clerical type of functions
- Responsible for providing the necessary reporting of the DSIC
- Responsible for the coordination of external usage of lab time, equipment, etc.
- Responsible for tracking software and equipment
- Provide assistance to Spyglass and General Instrument management in the running of the DSIC facilities

Confidential Materials omitted and filed separately with the Securities and Exchange Commission. Asterisks denote omissions.

EXHIBIT C

A. Staffing Schedule

Position	Q1 Year 1	Q2 Year 1	Q3 Year 1	Q4 Year 1	Total Year 1	Total Year 2	Total Year 3
Project Manager	***	***	***	***	***	***	***
Architect	***	***	***	***	***	***	***
Engineer	***	***	***	***	***	***	***
QA	***	***	***	***	***	***	***
Technical Writer	***	***	***	***	***	***	***

Management	***	***	***	***	***	***	***
System Administration	***	***	***	***	***	***	***
Administration	***	***	***	***	***	***	***
Totals	***	***	***	***	***	***	***

Personnel Qualifications

1. Project Manager
2. Architect
3. Engineer
4. QA
5. Technical Writer
6. Management
7. System Administration
8. Administration

EXHIBIT D

Key Employees

TO BE IDENTIFIED JOINTLY BY THE PARTIES DURING THE TERM

Confidential Materials omitted and filed separately with the Securities and Exchange Commission. Asterisks denote omissions.

EXHIBIT E

Cable Industry Entities Industry Entities Entities

List of Cable Entities, including all Affiliates thereof, in both Domestic and International Markets

Exhibit F

Form of GI's Invention and Nondisclosure Agreement

General Instrument Logo (Registered Trademark)

NON-DISCLOSURE AGREEMENT

Agreement made this day of 199__, by and between GENERAL INSTRUMENT CORPORATION, having an office at 101 Tournament Drive, Horsham, Pennsylvania 19044 (the "Company") and _____, having an office at _____ ("Recipient").

1. Recitals. The Company desires to disclose, and Recipient desires to receive, information which is deemed to be confidential, secret and/or proprietary to the Company for the purpose of enabling the Recipient to provide services to Spyglass DSIC, Inc. in support of an agreement with the Company.

2. Definition. "Confidential Information" shall mean any and all information disclosed by the Company to Recipient, including, without limitation, system concepts, electronic configurations, component specifications, logic diagrams, equipment designs, system designs, system architecture, protocols, software, processes, financial matters, business matters, research programs and any information which can be obtained by examination, testing or analysis of any hardware, software or any component part thereof provided by Company to Recipient.

3. Protection of Confidential Information. In consideration of the Company disclosing from time to time at its own discretion certain of its Confidential Information to Recipient or its officers, employees or agents, Recipient agrees that it shall use the Confidential Information only for the purposes stated in this Agreement and that it will not disclose at any time, nor permit its officers, employees or agents to disclose at any time (either during their respective employment by Recipient or thereafter), nor appropriate or use on its own behalf or on the behalf of others, any Confidential Information, except as otherwise provided herein, without in each instance first obtaining the Company's written consent thereto. Except as necessary to fulfill the purposes of this Agreement, Recipient further agrees not to make, or permit to be made by its officers, employees or agents, copies, abstracts or summaries of any Confidential Information, including, but not limited to, pictures, drawings, specifications, plans, data, notes and reports embodying any Confidential Information. Recipient further agrees to return to the Company, within ten (10) days following the Company's request, all such documents or other embodiments of any Confidential Information. Recipient acknowledges and agrees that all Confidential Information disclosed by the Company is provided AS IS without any warranty, whether express or implied, as to its accuracy, completeness or use for a particular purpose unless otherwise specifically set forth in writing by the Company.

4. Exceptions. The obligations under this Agreement shall not apply to Confidential Information which (a) is available to the public by publication in a single source; (b) is rightfully received from a third party without restriction on disclosure and without breach of this Agreement; (c) is independently developed by the receiving party provided that any person developing same have not had access to the Confidential Information; (d) is approved for release by written authorization of the Company; (e) is disclosed pursuant to a requirement of a governmental agency or by judicial requirement.

5. No Rights Granted. This Agreement shall not be construed as granting or conferring, either expressly or impliedly, any rights, licenses or relationships by the furnishing of Confidential Information specified above or pursuant to this Agreement. Without in any way limiting the foregoing it is specifically understood and agreed that Recipient shall in no way obtain any copyright in any computer program furnished hereunder nor in any translation, modification, correction or addition thereto.

6. Equitable Remedies. Recipient acknowledges and agrees that the unauthorized use or disclosure of Confidential Information will cause serious, irreparable and significant harm, damage or loss to the Company, which will be difficult or impossible to ascertain. Accordingly, Recipient agrees that the Company will have, in addition to all other remedies at law or in equity, the right to seek immediate injunctive relief to enforce Recipient's obligations under this Agreement. In the event of a breach of this Agreement by Recipient, all costs, including reasonable attorneys' fees, incurred by the Company in enforcing this Agreement shall be borne by Recipient.

7. Entire Agreement. This Agreement is the entire agreement between the parties with respect to the subject matter contained herein and supersedes all prior or contemporaneous oral or written agreements concerning such subject matter.

8. Governing Law. This Agreement shall be governed by and construed under the laws of the Commonwealth of Pennsylvania and the parties hereto agree to submit themselves to the jurisdiction of all federal and state courts within such Commonwealth.

9. Amendments or Waivers. This Agreement may not be amended except by written agreement signed by duly authorized representatives of both parties. No failure to or delay in exercising any right under this Agreement will operate as a waiver of such right.

10. No Future Obligations and Non-Exclusivity. Neither this Agreement nor any obligation undertaken hereby shall obligate either party to enter into any further business relationship. Except as otherwise agreed to in writing by the parties and subject to the terms of this Agreement, either party may meet, exchange information,

enter into agreements and conduct business of any kind with third parties, to the exclusion of the other party hereto, relating to the purpose or project for which Confidential Information is disclosed hereunder.

11. Publicity. Neither party shall publicly announce or disclose the terms of this Agreement, or advertise or release any publicity regarding this Agreement or the fact that the parties are engaged in discussions, without the prior written consent of the other party. This provision shall survive the expiration, termination or cancellation of this Agreement.

12. Binding Effect. This Agreement shall be binding on and inure to the benefit of the Parties and their respective successors and assigns, but no Party shall have the power to assign this Agreement or any rights or obligations hereunder without the prior written consent of the other Party hereto or as otherwise provided herein. Notwithstanding the foregoing, a Party may, without the consent of the other Party, assign its rights and obligations under this Agreement to any successor entity in the event of such Party's sale or transfer of substantially all of the assets or stock of such Party or a division thereof responsible for the performance of such Party's obligations hereunder, or in the event of a merger, consolidation or reorganization; provided, however, in any such event, such assignor shall not be relieved of any of its obligations hereunder except to the extent performed or satisfied by the assignee.

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

General Instrument Corporation

By: _____

Name:

Title:

RECIPIENT:

By: _____

Name:

Title:

Confidential Materials omitted and filed separately with the Securities and Exchange Commission. Asterisks denote omissions.

Exhibit G

Spyglass' Severance Policies

November 3, 1997

<<Name>>

<<Address>>

<<City>>

Dear <<First Name>>:

To remain competitive in today's market, Spyglass, Inc. has found it necessary to change its business strategies and restructure some organizations. Because of these business decisions, it is necessary to inform you that your employment with Spyglass will be terminated.

This letter informs you that effective today, Spyglass is giving you a *** day notification period. During this period, you will receive ***. You are not expected ***.

At the conclusion of the notification period on December 3, 1997, your employment with Spyglass will officially terminate. If you agree to the terms contained in this letter agreement, you will then be eligible for the following severance package: Employees with up to one (1) year of service shall receive *** of severance pay. Employees with one year or more of services shall receive *** of severance pay for every *** worked. You are eligible to be paid <<SevDays>> Weeks of severance (through <<EndDate>>) at ***. Such salary payments shall continue to be made in accordance with the Company's normal payroll practices and be subject to all applicable withholding requirements. Paid time leave shall continue to accrue through December 3, 1997 and will be included in your termination check to be paid on December 3rd.

Because the purpose of this severance package is to ease our transition to new employment you will be provided with up to *** of outplacement assistance; however, your outplacement assistance and severance payments will cease upon your acceptance of other employment. You agree that you will notify the Company promptly upon acceptance of any employment elsewhere.

In addition, the company will pay for the medical and dental benefits you presently carry through <<InsDate>> based on your acceptance of this agreement. You may elect to continue your medical and dental coverage subsequent to <<InsDate>> at your expense, subject to the COBRA stipulations. You will be sent further information regarding extending these benefits upon termination.

All stock options available to be exercised as of December 3, 1997 must be executed within ninety (90) days from termination (March 3, 1998).

Acceptance of this agreement acknowledges your concurrence with the following terms.

You acknowledge the continuing applicability of the provisions of the Invention and Non-Disclosure Agreement executed by you, between Spyglass and you.

You agree that you will not make any negative or derogatory comments or disclose any negative or derogatory information about the Company or its management, business, personnel, products or services. The Company agrees that it will not make any negative or derogatory comments or disclose any negative or derogatory information about you or your employment with the Company.

On behalf of yourself, your agents, representatives, attorneys, assigns, heirs executors and administrators, you hereby release and forever discharge the company and its employees, officers, directors, shareholder, representatives and agents from any and all claims that you have relating to or pertaining to your employment or the termination thereof or to your ownership of shares or options to acquire shares in the Company, or any other claim that arose or could have arisen on or before the date of this letter agreement, including but not limited to claims in tort or contract, under Title VII of the Civil Rights Act of 1964, 42 U.S.C. s2000e et. Seq., the American with Disabilities Act, 42 U.S. C. s12101 et. seq., the Age Discrimination in Employment Act, 29 U.S.C. s621 et. seq., the Civil rights Act, Mass.Gen L. c 12 xx11H11I et seq., the Equal Rights Act, mass. Gen L. c93 s102 et seq., the Mass Gen L. c 151B x1 et seq. and damages arising out of all employment discrimination, wrongful discharge or other common law claims excepts any and all such claims which may arise out of the company's nonperformance of its obligations under this letter agreement. You represent and warrant that you have not filed any complaints, charges or claims for relief against the Company with any local, state or federal court or administrative agency, with currently are outstanding.

This letter agreement shall inure to the benefit of and be binding upon the parties hereto and their successors and assigns.

You acknowledge that it would be difficult to fully compensate the Company for damages for breach by you of any of the provisions contained in this letter agreement. Accordingly, you specifically agree that the Company shall be entitled to equitable relief to enforce such provisions without the necessity of proving actual damages.

You agree to immediately return to Spyglass, any equipment or property owned by the Company that you are using;

This agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts.

You should consult your own attorney before signing this letter and may take up to forty-five (45) days to do so. If, after reviewing this letter with your attorney, you find that its terms and conditions are satisfactory to you, sign and return this letter in the enclosed stamped envelope. If you sign this letter, you may change your mind and revoke your agreement during the seven (7) day period after you have signed it. If you do not so revoke, this letter will become a binding agreement between you and the Company upon the expiration of the seven (7) day revocation period.

Attachment A of this letter provides you with disclosures required by federal law regarding the employees eligible for this severance package. By your signature below, you acknowledge that you have read Attachment A and understand its contents.

Very truly yours,

SPYGLASS, INC.

Douglas P. Colbeth
President & CEO

I hereby agree to the terms and conditions set forth above. I have been given at least 45 days to consider this letter agreement and I have chosen to execute this letter agreement on the date indicated below. I intend that this letter will become a binding agreement between me and the Company if I do not revoke my acceptance within seven (7) days.

<<Name>.

Date

Attachment

Confidential Materials omitted and filed separately with the Securities and Exchange Commission. Asterisks denote omissions.

OPERATING AGREEMENT

This Agreement is entered into as of October 19, 1998 (the "Effective Date") among Spyglass, Inc., a Delaware corporation having a principal place of business at 1240 E. Diehl Road, 4th Floor, Naperville, IL 60563 ("Spyglass"), Spyglass DSIC, Inc., a Delaware corporation having a principal place of business at 1240 E. Diehl Road, 4th Floor, Naperville, IL 60563 (the "Subsidiary"), and General Instrument Corporation, a Delaware corporation having a place of business at 101 Tournament Drive, Horsham, Pennsylvania 19044 ("GI"). Spyglass, the Subsidiary and GI are hereinafter sometimes referred to individually as a "Party" and collectively as the "Parties."

WHEREAS, contemporaneously with the execution of this Agreement, the Company and the Purchaser are entering into a Digital Software Integration Center Sourcing Agreement (the "Sourcing Agreement");

WHEREAS, contemporaneously with the execution of this Agreement, the Company has organized the Subsidiary for the purpose of operating and managing a Digital Software Integration Center in accordance with the terms of the Sourcing Agreement:

WHEREAS, Spyglass, the Subsidiary and GI desire to enter into this Agreement for the purpose of establishing certain rights and obligations with respect to the Subsidiary;

NOW, THEREFORE, in consideration of the mutual promises and covenants contained in this Agreement and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Spyglass, the Subsidiary and GI, each intending to be legally bound, hereby agree as follows:

1. Organization of Subsidiary.

1.1 Spyglass organized the Subsidiary as a Delaware corporation on October 14, 1998. The Subsidiary has engaged in no activities to date other than routine matters incident to its organization.

1.2 The Certificate of Incorporation and By-laws of the Subsidiary are attached hereto as Exhibit A and Exhibit B, respectively. The Board of Directors of the Subsidiary consists of Douglas P. Colbeth and Gary Vilchick.

1.3 Promptly following the execution of this Agreement, (a) the Subsidiary shall issue and sell, and Spyglass shall purchase, 900 shares of the common stock, \$.01 par value per share (the "Common Stock"), of the Subsidiary for a purchase price of *** per share, and

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Confidential Materials omitted and filed separately with the Securities and Exchange Commission. Asterisks denote omissions.

(b) the Subsidiary shall issue and sell, and GI shall purchase, 100 shares of Common Stock of the Subsidiary for a purchase price of *** per share.

1.4 Each of Spyglass and GI represents as follows with respect to its purchase of Common Stock of the Subsidiary:

(a) It is purchasing such shares for its own account for investment only, and not with a view to, or for sale in connection with, any distribution of such shares in violation of the Securities Act of 1933 (the "Securities Act"), or any rule or regulation under the Securities Act.

(b) It understands that (i) such shares have not been registered under the Securities Act and are "restricted securities" within the meaning of Rule 144 under the Securities Act and (ii) such shares cannot be sold, transferred or otherwise disposed of unless they are subsequently registered under the Securities Act or an exemption from registration is then available.

(c) Legends substantially in the following form will be placed on the certificate representing such shares:

"The shares represented by this certificate have not been registered under the Securities Act of 1933, as amended, and may not be sold, transferred or otherwise disposed of in the absence of an effective registration statement under such Act or an opinion of counsel satisfactory to the corporation to the effect that such registration is not required."

"The shares represented by this certificate are subject to restrictions on transfer and a purchase option set forth in an agreement between Spyglass, Inc. and certain other parties dated October 19, 1998, a copy of which is available upon request to the Secretary of Spyglass, Inc."

2. Operation of Subsidiary.

2.1 The Subsidiary shall not engage in any activities, shall not acquire any assets, shall not incur any liabilities and shall not hire any personnel except for the specific purpose of performing services for GI under the Sourcing Agreement and otherwise in accordance with the terms of the Sourcing Agreement. Confidential Materials omitted and filed separately with the Securities and Exchange Commission. Asterisks denote omissions.

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2.2 Without limiting the restrictions set forth in Section 2.1, the Subsidiary shall not, without the prior written consent of both Spyglass and GI, take any of the following actions:

(a) amend its Certificate of Incorporation or By-laws;

(b) issue any shares of capital stock, or any other securities exercisable for, convertible into or exchangeable for any shares of capital stock of the Subsidiary;

(c) declare or pay any dividends or distributions on its outstanding Common Stock or repurchase or reacquire any outstanding shares of its Common Stock;

(d) merge with or into or consolidate with any other entity, or sell or otherwise dispose of all or substantially all of its properties or assets to any other entity; or

(e) voluntarily liquidate or dissolve.

2.3 The Subsidiary will operate its business in compliance with all laws, rules and regulations applicable to the Subsidiary and its business.

3. Purchase Option. GI shall have an option (the "Purchase Option") to purchase, for cash, all (but not less than all) of the shares of Common Stock of the Subsidiary owned by Spyglass, upon the terms and conditions set forth in this Section 3.

3.1 Term of the Purchase Option.

(a) The Purchase Option shall become exercisable upon the earliest to occur of the following dates: (i) ***, provided that if GI elects to extend, pursuant to the terms of the Sourcing Agreement, the expiration of the Sourcing Agreement from October 31, 2001 to October 31, 2002, the Purchase Option shall instead become exercisable on ***; (ii) the date on which the Sourcing Agreement is terminated by GI pursuant to Section 11.3 of the Sourcing Agreement; and (iii) the date on which a Spyglass Change in Control (as defined

below) occurs. If the Purchase Option becomes exercisable pursuant to clause (i) of this Section 3.1(a), the Purchase Option shall continue in effect until April 30, 2001 or (if GI elects to extend, pursuant to the terms of the Sourcing Agreement, the expiration of the Sourcing Agreement from October 31, 2001 to October 31, 2002) April 30, 2002. If the Purchase Option becomes exercisable pursuant to clauses (ii) or (iii) of this Section 3.1(a), the Purchase Option shall continue in effect through and including the date that is six months after the date on which the Purchase Option became exercisable. The period during which the Purchase Option is exercisable shall be referred to in this Agreement as the "Option Term."

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Confidential Materials omitted and filed separately with the Securities and Exchange Commission. Asterisks denote omissions.

(b) For purposes of this Agreement, a "Spyglass Change in Control" shall mean the consummation of (i) a merger, consolidation, reorganization, recapitalization or tender offer involving Spyglass, immediately following which the individuals and entities who were the beneficial owners of the Common Stock of Spyglass immediately prior to such transaction beneficially own, directly or indirectly, less than 60% of the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors of Spyglass or the resulting or acquiring corporation in such transaction, (ii) the sale of all or substantially all of the assets of Spyglass, or (iii) the acquisition by any of the companies listed on Exhibit C attached hereto of beneficial ownership (within the meaning of Section 13(d) of the Securities Exchange Act of 1934) of shares of common stock of Spyglass representing 20% or more of the outstanding common stock of Spyglass.

3.2 Purchase Price. The purchase price to be paid by GI to Spyglass for the shares of Common Stock of the Subsidiary owned by Spyglass (the "Purchase Price") shall be *** of the fair market value of the Subsidiary as of the date on which GI delivers the Exercise Notice (as defined in Section 3.3(a) below) to Spyglass (the "Fair Market Value"), to be determined as follows:

(a) Upon the delivery by GI of an Exercise Notice to Spyglass, GI and Spyglass shall commence discussions regarding, and shall use good faith efforts to agree upon, the Fair Market Value. If GI and Spyglass reach such an agreement, they shall execute a written instrument setting forth the agreed-upon Fair Market Value.

(b) If GI and Spyglass do not agree upon the Fair

Market Value within 30 days after the date (the "Exercise Date") on which GI delivers the Exercise Notice to Spyglass, then:

(i) The Fair Market Value shall be the average of the estimates, by each of three investment banking firms selected in accordance with this Section 3.2(b) (the "Investment Banks"), of the Fair Market Value.

(ii) GI and Spyglass shall each select, within 45 days of the Exercise Date, one Investment Bank, and shall deliver notice to each other of the Investment Bank so selected. Neither GI nor Spyglass may select an Investment Bank after such Party has received notice that such Investment Bank has been selected by the other Party. Spyglass and GI shall cause the Investment Banks

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selected by them to together select a third Investment Bank no later than 30 days following the Exercise Date.

(iii) Promptly following the selection of the third Investment Bank, GI and Spyglass shall jointly engage the three Investment Banks to make a written estimate of the fair market value of the Subsidiary as of the Exercise Date (without applying any discount due to a lack of a public trading market for the Common Stock of the Subsidiary), and to deliver to each of GI and Spyglass, as soon as practicable, but in any event no later than 75 days following the Exercise Date, a written valuation report stating the estimated fair market value of the Subsidiary and setting forth in reasonable detail the methodology by which such estimate was determined. The valuation estimates by each Investment Bank shall take into account such factors as such Investment Bank, in its reasonable discretion, deems relevant, which factors may include the valuations of comparable privately or publicly held companies and the estimated value of the equity of the Subsidiary in a private equity financing, an initial public offering, and/or an acquisition of the entire company. The valuation estimates prepared by the Investment Banks shall be binding upon both GI and Spyglass and neither GI nor Spyglass may dispute the fair market value estimates or the methodologies used in arriving at such estimates.

(iv) GI shall pay the fees and expenses of the Investment Bank selected by it; Spyglass shall pay the fees and expenses of the Investment Bank selected by it; and GI and Spyglass shall each pay one-half of the fees and expenses of the third Investment Bank.

3.3 Exercise Procedure.

(a) To exercise the Purchase Option, GI must deliver a written notice to Spyglass (the "Exercise Notice") which states GI's election to exercise the Purchase Option and specifies a closing date for the exercise of the Purchase Option (the "Closing Date"), which date shall be no earlier than 60 days and no later than 90 days after the Exercise Date; provided that if the Purchase Option becomes exercisable pursuant to clause (i) of Section 3.1(a), the Closing Date specified shall be the expiration date of the Sourcing Agreement. The Exercise Notice must be delivered by GI to Spyglass during the Option Term (although the Closing Date may occur after the expiration of the Option Term, subject to the time limits in the preceding sentence). If GI does not deliver an Exercise Notice to Spyglass prior to the expiration of the Option Term, the Purchase Option shall expire. GI shall be under no obligation to exercise the Purchase Option. GI's delivery of an Exercise Notice shall be deemed an irrevocable commitment to purchase the shares of Common Stock of the Subsidiary owned by Spyglass, subject to the terms and conditions set forth in this Section 3.

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(b) On the Closing Date, subject to compliance with all applicable laws and regulations (including without limitation the Hart-Scott-Rodino Antitrust Improvements Act of 1976):

(i) Spyglass shall deliver to GI: (A) one or more stock certificates representing the shares of Common Stock of the Subsidiary owned by Spyglass, duly endorsed in blank or accompanied by duly executed stock powers; (B) a certificate of the Secretary of Spyglass certifying that Spyglass is the record and beneficial owner of such shares of Common Stock, and that such shares are not subject to any lien, pledge, security interest or other encumbrance; and (C) a certificate of the Secretary of State of the State of Delaware certifying as to the legal existence and good standing of both the Subsidiary and Spyglass; and

(ii) GI shall: (A) pay to Spyglass the amount of the Purchase Price, by a wire transfer of immediately available funds to an account designated by Spyglass; and (B) deliver to Spyglass a certificate of the Secretary of State of the State of Delaware certifying as to the legal existence and good standing of GI.

(c) If on the scheduled Closing Date the consummation of the purchase and sale of the shares of Common Stock of the Subsidiary owned by Spyglass cannot take place because the Purchase Price has not yet been determined or because a legal requirement for the consummation of such purchase and sale has not yet been satisfied, the scheduled Closing Date shall be deferred until a

mutually agreeable later date. If such purchase and sale has not been consummated by the date 120 days following the Exercise Date (or, if the Purchase Option became exercisable pursuant to clause (i) of Section 3.1(a), by the date 30 days following the scheduled Closing Date), then either GI or Spyglass shall have the right to cancel such pending purchase and sale; provided that neither GI nor Spyglass may cancel such pending purchase and sale if the failure to consummate such purchase and sale results primarily from a breach by such Party of any provision contained in this Agreement or a failure by such Party to use good faith efforts to effect the consummation of such purchase and sale.

3.4 Restrictions on Transfer.

(a) Until such time as the Purchase Option has expired unexercised, Spyglass shall not sell, transfer or otherwise dispose of, and shall not pledge or otherwise encumber, any of the shares of Common Stock of the Subsidiary owned by Spyglass, and no such pledge or encumbrance currently exists. Notwithstanding the foregoing sentence, Spyglass may transfer its shares of Common Stock of the Subsidiary to a wholly-owned subsidiary of Spyglass, provided such subsidiary delivers a written notice to GI agreeing to be bound

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Confidential Materials omitted and filed separately with the Securities and Exchange Commission. Asterisks denote omissions.

by the terms and conditions of this Agreement with respect to such shares of the Subsidiary.

(b) Until such time as the Purchase Option has expired unexercised, GI shall not sell, transfer or otherwise dispose of, and shall not pledge or otherwise encumber, any of the shares of Common Stock of the Subsidiary owned by GI, and no such pledge or encumbrance currently exists. Notwithstanding the foregoing sentence, GI may transfer its shares of Common Stock of the Subsidiary to a wholly-owned subsidiary of GI, provided such subsidiary delivers a written notice to Spyglass agreeing to be bound by the terms and conditions of this Agreement with respect to such shares of the Subsidiary.

3.5 Restrictions Regarding Employees. From and after the Exercise Date, Spyglass shall not hire any employees of the Subsidiary, reassign their employment responsibilities such that they are performing services for Spyglass (rather than the Subsidiary) or terminate their employment except for valid reasons.

4. Management Services.

4.1 Spyglass shall provide to the Subsidiary, upon the

request of the Subsidiary, the following administrative and support services: accounting (including processing of accounts receivable and accounts payable), payroll processing, employee benefits administration, and such other administrative and support services as Spyglass and the Subsidiaries shall mutually agree upon. In addition, Spyglass shall provide executive management services and advice to the Subsidiary to assist it in performing its obligations under the Sourcing Agreement.

4.2 As consideration for the provision of services by Spyglass to the Subsidiary under Section 4.1, the Subsidiary shall pay ***, of the Subsidiary for each fiscal year of the Subsidiary (beginning with the fiscal year ending September 30, 1999), as determined in accordance with generally accepted accounting principles and Spyglass' accounting principles and practices as reflected in its audited financial statements filed with the Securities and Exchange Commission. Such fees shall be payable by the Subsidiary to Spyglass on a quarterly basis (with any necessary adjustments made based upon actual financial results for the fiscal year), or in accordance with such other schedule as may be agreed upon by Spyglass and the Subsidiary. Spyglass shall be liable for and shall pay all federal, state, local and foreign taxes incurred by the Subsidiary as a result of its existence and operations.

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4.3 Spyglass shall use good faith efforts in providing services to the Subsidiary under this Section 4, and shall use the same degree of care in providing such services as it utilizes in providing such services for its own operations. In no event shall Spyglass be liable for any error or omission in providing such services, or defect in the services provided, except for any error, omission, or defect attributable to the gross negligence or wilful misconduct of Spyglass. Spyglass makes no representations, warranties or guaranties, express or implied (including without limitation any warranty of merchantability or fitness for a particular purpose) with respect to the services provided to the Subsidiary under this Section 4, and shall not be liable for any lost profits or special, incidental or consequential damages caused by any delay in providing or any failure to provide such services.

4.4 The provisions of Sections 4.1 and 4.2 shall terminate upon the expiration or termination of the Sourcing Agreement.

5. Representations of Spyglass. Spyglass hereby represents and warrants to GI as follows:

5.1 Organization and Standing. Spyglass is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware.

5.2 Authorization of Transaction. Spyglass has all requisite power and authority to execute and deliver this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement by Spyglass and the consummation of the transactions contemplated hereby by Spyglass have been duly and validly authorized by all necessary corporate action on the part of Spyglass. This Agreement has been duly and validly executed and delivered by Spyglass and constitutes a valid and binding obligation of Spyglass, enforceable against it in accordance with its terms.

5.3 Noncontravention. Neither the execution and delivery of this Agreement by Spyglass, nor the consummation by Spyglass of the transactions contemplated hereby, (a) conflicts with or violates any provision of the Certificate of Incorporation or By-laws of Spyglass, (b) requires on the part of Spyglass any filing with, or permit, authorization, consent or approval of, any governmental entity, (c) conflicts with, results in breach of, constitutes a default under, or requires any notice, consent or waiver under, any contract, agreement or other instrument to which Spyglass is a party or by which it is bound (other than any consent or waiver which has already been obtained), or (d) violates any order, writ, injunction, decree, statute, rule or regulation applicable to Spyglass.

6. Representations of the Subsidiary. The Subsidiary hereby represents and warrants to GI as follows:

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6.1 Organization and Standing. The Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware.

6.2 Capitalization. The authorized capital stock of the Subsidiary consists of 1,000 shares of Common Stock, \$.01 par value per share, none of which are issued or outstanding. All of the shares of Common Stock of the Subsidiary to be issued pursuant to this Agreement will be, when so issued, duly authorized and validly issued and fully paid and nonassessable.

6.3 Authorization of Transaction. The Subsidiary has all requisite power and authority to execute and deliver this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement by the Subsidiary and the consummation of the transactions contemplated hereby by the Subsidiary have been duly and validly authorized by all necessary corporate action on the part of the Subsidiary. This Agreement has been duly and validly executed and delivered by the Subsidiary and constitutes a valid and binding obligation of the Subsidiary, enforceable against it in accordance

with its terms.

6.4 Noncontravention. Neither the execution and delivery of this Agreement by the Subsidiary, nor the consummation by the Subsidiary of the transactions contemplated hereby, (a) conflicts with or violates any provision of the Certificate of Incorporation or By-laws of the Subsidiary, (b) requires on the part of the Subsidiary any filing with, or permit, authorization, consent or approval of, any governmental entity, (c) conflicts with, results in breach of, constitutes a default under, or requires any notice, consent or waiver under, any contract, agreement or other instrument to which the Subsidiary is a party or by which it is bound (other than any consent or waiver which has already been obtained), or (d) violates any order, writ, injunction, decree, statute, rule or regulation applicable to the Subsidiary.

7. Representations of GI. GI hereby represents and warrants to Spyglass and the Subsidiary as follows:

7.1 Organization and Standing. GI is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware.

7.2 Authorization of Transaction. GI has all requisite power and authority to execute and deliver this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement by GI and the consummation of the transactions contemplated hereby by GI have been duly and validly authorized by all necessary corporate action on the part of GI. This Agreement has been duly and validly executed and delivered by GI and constitutes a

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valid and binding obligation of GI, enforceable against it in accordance with its terms.

7.3 Noncontravention. Neither the execution and delivery of this Agreement by GI, nor the consummation by GI of the transactions contemplated hereby, (a) conflicts with or violates any provision of the Certificate of Incorporation or By-laws of GI, (b) requires on the part of GI any filing with, or permit, authorization, consent or approval of, any governmental entity, (c) conflicts with, results in breach of, constitutes a default under, or requires any notice, consent or waiver under, any contract, agreement or other instrument to which GI is a party or by which it is bound (other than any consent or waiver which has already been obtained), or (d) violates any order, writ, injunction, decree, statute, rule or regulation applicable to GI.

8. Miscellaneous.

8.1 Successors and Assigns. No Party may assign this Agreement or any of its rights or obligations hereunder without the prior written consent of the other Parties, except (i) to the limited extent permitted by Section 3.4 or (ii) as part of the sale or transfer of all or substantially all of the business, stock or assets of Spyglass or GI. This Agreement, and the rights and obligations of the Parties hereunder, shall be binding upon their successors and permitted assigns.

8.2 Confidentiality. GI agrees that it will keep confidential and will not disclose or divulge any confidential, proprietary or secret information which GI may obtain from Spyglass or the Subsidiary pursuant to this Agreement, unless such information is known, or until such information becomes known, to the public; provided, however, that GI may disclose such information (i) to its attorneys, accountants, consultants and other professionals to the extent necessary to obtain their services in connection with its investment in Spyglass or the Subsidiary, or (ii) to any Affiliate of GI; subject to the agreement of such party to keep such information confidential as set forth herein. Spyglass and the Subsidiary each agree that they will keep confidential and will not disclose or divulge any confidential, proprietary or secret information which they may obtain from GI pursuant to this Agreement, unless such information is known, or until such information becomes known, to the public; provided, however, that Spyglass and the Subsidiary may disclose such information (i) to their attorneys, accountants, consultants and other professionals to the extent necessary to obtain their services in connection with this Agreement, or (ii) to any Affiliate of Spyglass or the Subsidiary; subject to the agreement of such party to keep such information confidential as set forth herein.

8.3 Survival of Representations, Warranties and Covenants. All representations and warranties contained herein shall survive

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the execution and delivery of this Agreement and continue for a period of two years thereafter. All covenants shall survive indefinitely, except as limited in accordance with their terms.

8.4 Notices. All notices, requests, consents, and other communications under this Agreement shall be in writing and in the English language, and shall be delivered by any lawful means, to the following address:

If to Spyglass or the Subsidiary, at Spyglass, Inc., One Cambridge Center, Cambridge, Massachusetts 02142, Attn: Chief Financial Officer, or at such other address or addresses as may have been furnished in writing by Spyglass to GI; or

If to GI, at 101 Tournament Drive, Horsham, Pennsylvania 19044, Attn: Executive Vice President, Business Development, with a copy to the Senior Vice President and General Counsel, or at such other address or addresses as may have been furnished in writing by GI to Spyglass.

Any such notices, requests, consents and other communications shall be deemed delivered upon receipt by the addressee.

8.5 Entire Agreement. This Agreement embodies the entire agreement and understanding among the Parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings relating to such subject matter.

8.6 Amendments and Waivers. Except as otherwise expressly set forth in this Agreement, any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), with the written consent of Spyglass, the Subsidiary and GI. No waivers of or exceptions to any term, condition or provision of this Agreement, in any one or more instances, shall be deemed to be, or construed as, a further or continuing waiver of any such term, condition or provision.

8.7 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which shall be one and the same document.

8.8 Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

8.9 Costs and Expenses. Except as specifically provided otherwise in this Agreement, all costs and expenses (including without limitation fees and expenses of attorneys, brokers, agents or finders) incurred by any Party in connection with this Agreement and

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the transactions contemplated hereby shall be paid by the party incurring such costs and expenses.

8.10 Titles. The section headings of this Agreement are for convenience of reference only and shall not be considered in construing this Agreement.

8.11 Cooperation. Each Party shall, at the request and expense of the other Party, at any time and from time to time following the execution of this Agreement, execute and deliver to the

other Party such further instruments and take such further administrative and ministerial actions as may be reasonably necessary or appropriate to carry out the purposes and intent of this Agreement.

8.12 No Third Party Beneficiaries. Nothing expressed or implied in this Agreement or shall be construed to confer upon any person or entity, other than the Parties and their respective successors and permitted assigns, any rights or remedies under or in connection with this Agreement.

8.13 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their duly authorized representatives as of the Effective Date.

SPYGLASS, INC.

By: /s/ Micahel F. Tyrrell

(print name and title)

Michael F. Tyrrell, E.V.P.
Bus.Dev.

SPYGLASS DSIC, INC.

By: /s/ Michael F. Tyrrell

Michael F. Tyrrell, E.V.P.
(print name and title)

GENERAL INSTRUMENT CORPORATION

By: /s/ Richard C. Smith

Richard C. Smith

(print name and title)

Exhibit C

Selected Financial Data

The following table sets forth selected financial data of the Company as of and for the five years ended September 30, 1998, 1997, 1996, 1995 and 1994. The selected financial data has been derived from the Company's audited consolidated financial statements. This financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and Notes thereto appearing elsewhere in this document.

<TABLE>

<CAPTION>

	Fiscal Years Ended September 30, __				
	1998	1997 (3)	1996 (3)	1995 (3) (2)	1994 (3) (2)
<S>	<C>	<C>	<C>	<C>	<C>
(In thousands, except per share amounts)					
Statement of Operations Data:					
Total net revenues	\$20,494	\$21,295	\$22,307	\$12,141	\$4,667
Gross profit	15,274	18,267	20,277	10,380	3,580
Income (loss) from operations	(9,238)	(11,357)	3,667	3,025	770
Income (loss) before cumulative effect of change in accounting	(8,016)	(9,735)	3,460	2,176	584
Net income (loss)	(8,016)	(9,735)	3,460	2,176	1,384
Net income (loss) available to common stockholders	(\$8,016)	(\$9,735)	\$3,460	\$ 1,985	\$1,127

</TABLE>

Earnings (loss) per common share-basic (1):

<TABLE>

<S>	<C>	<C>	<C>	<C>	<C>
Income (loss) before cumulative effect of change in accounting	(\$0.60)	(\$0.81)	\$ 0.30	\$ 0.27	\$ 0.09
Net income (loss)	(\$0.60)	(\$0.81)	\$ 0.30	\$ 0.27	\$ 0.20
Net income (loss) available to common stockholders	(\$0.60)	(\$0.81)	\$ 0.30	\$ 0.25	\$ 0.17
Weighted average number of common shares outstanding	13,395	12,090	11,620	8,111	6,766

</TABLE>

Earnings (loss) per common share-diluted (1):

<TABLE>

<S>	<C>	<C>	<C>	<C>	<C>
Income (loss) before cumulative effect of change in accounting	(\$0.60)	(\$0.81)	\$ 0.27	\$ 0.23	\$ 0.08
Net income (loss)	(\$0.60)	(\$0.81)	\$ 0.27	\$ 0.23	\$ 0.19
Net income (loss) available to common stockholders	(\$0.60)	(\$0.81)	\$ 0.27	\$ 0.21	\$ 0.16
Weighted average number of common shares outstanding	13,395	12,090	12,875	9,383	7,172

</TABLE>

Balance Sheet Data:

<TABLE>

<S>	<C>	<C>	<C>	<C>	<C>
Cash and cash equivalents and short-term investments	\$22,655	\$27,770	\$34,083	\$34,872	\$1,606
Working capital	26,273	28,844	39,117	35,550	2,174
Total assets	34,575	40,580	48,769	43,509	5,871
Redeemable convertible preferred stock	-	-	-	-	3,393
Total stockholders' equity (deficit)	\$30,076	\$35,567	\$43,891	\$37,614	\$(756)

</TABLE>

Dividend Policy The Company has never paid cash dividends on its capital stock. The Company currently intends to retain earnings, if any, to support its growth strategy and does not anticipate paying cash dividends in the foreseeable future.

(1) In December 1997, the Company adopted Statement of Financial Accounting Standard No. 128, Earnings per Share ("SFAS No. 128"). SFAS No. 128 replaced the previously reported primary and fully diluted earnings per share with basic and diluted earnings per share. In periods when the Company incurs a net loss, the basic and diluted weighted average number of common shares outstanding will be equal.

(2) On November 28, 1995, the Board of Directors declared a two-for-one common stock split, effected in the form of a 100% stock dividend, paid December 20, 1995, to stockholders of record as of December 6, 1995. All share and per share data prior to December 20, 1995 has been restated to reflect the two-for-one common stock split for all periods presented.

(3) Selected financial data for the years ended September 30, 1997, 1996, 1995 and 1994 does not include the results of AllPen Software which was acquired in fiscal 1998 in a transaction accounted for as a pooling of interests. Because the effect of this transaction was considered immaterial, Spyglass' financial statements were not restated; instead, the Company's equity accounts were adjusted for the effect of the pooling.

Selected Quarterly Data

The following table sets forth certain quarterly financial information of the Company for fiscal years 1998 and 1997. This information has been derived from the consolidated quarterly financial statements of the Company which are unaudited but which, in the opinion of management, have been prepared on the same basis as the audited consolidated financial statements included herein and include all adjustments (consisting only of normal recurring items) necessary for a fair presentation of the financial results for such periods. This information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and Notes thereto appearing elsewhere in this document.

<TABLE>

	Three Months Ended (Unaudited)							
	Sept. 30, 1998	June 30, 1998	March 31, 1998	Dec. 31, 1997	Sept. 30, 1997	June 30, 1997	March 31, 1997	Dec. 31, 1996
(In thousands, except per share amounts)					(3)	(3)	(1) (3)	(3)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>

Statement of Operations Data:

Total net revenues	\$5,858	\$5,376	\$5,006	\$4,254	\$3,179	\$2,216	\$12,015	\$3,885
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Gross profit	4,060	3,941	3,895	3,378	2,494	1,539	10,808	3,426
Income (loss) from operations	(888)	(1,534)	(2,826)	(3,990)	(5,031)	(6,150)	2,755	(2,931)
Net income (loss)	(589)	(1,250)	(2,529)	(3,648)	(4,708)	(5,533)	2,051	(1,545)

Per Share and Share Data:

Net income (loss) per share- basic (2)	\$ (0.04)	\$ (0.09)	\$ (0.19)	\$ (0.28)	\$ (0.38)	\$ (0.45)	\$ 0.17	\$ (0.13)
--	-----------	-----------	-----------	-----------	-----------	-----------	---------	-----------

Weighted average number of Common shares outstanding - basic	13,730	13,602	13,124	13,018	12,325	12,187	11,999	11,852
--	--------	--------	--------	--------	--------	--------	--------	--------

Net income (loss) per share- diluted (2)	\$ (0.04)	\$ (0.09)	\$ (0.19)	\$ (0.28)	\$ (0.38)	\$ (0.45)	\$ 0.16	\$ (0.13)
--	-----------	-----------	-----------	-----------	-----------	-----------	---------	-----------

Weighted average number of Common shares outstanding - diluted	13,730	13,602	13,124	13,018	12,325	12,187	12,768	11,852
--	--------	--------	--------	--------	--------	--------	--------	--------

</TABLE>

(1) Includes a one-time licensing fee of \$8,000,000 from Microsoft Corporation which decreased the net loss by \$7,000,000 or \$0.58 per share.

(2) In December 1997, the Company adopted Statement of Financial Accounting Standard No. 128, Earnings per Share ("SFAS No. 128"). SFAS No. 128 replaced the previously reported primary and fully diluted earnings per share with basic and diluted earnings per share. In periods when the Company incurs a net loss, the basic and diluted weighted average number of common shares outstanding will be equal.

(3) Selected quarterly data for the year ended September 30, 1997 does not include the results of AllPen Software which was acquired in fiscal 1998 in a transaction accounted for as a pooling of interests. Because the effect of this transaction was considered immaterial, Spyglass' financial statements were not restated; instead, the Company's equity accounts were adjusted for the effect of the pooling.

Market Price Per Share

The following table sets forth, for the periods indicated, the high and low sales prices of the Common Stock of the Company on the Nasdaq National Market, as reported by Nasdaq.

<TABLE>

Three Months Ended							
Sept. 30,	June 30,	March 31,	Dec. 31,	Sept. 30,	June 30,	March 31,	Dec. 31,

	1998	1998	1998	1997	1997	1997	1997	1996
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
High	\$15 5/16	\$15 3/8	\$9 9/16	\$12	\$10 1/2	\$11	\$14 1/8	\$19 1/2
Low	\$ 9 5/8	\$ 8 1/4	\$4 /	\$4 1/16	\$7 3/16	\$ 6	\$ 7	\$10

</TABLE>

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Spyglass, Inc. ("Spyglass" or the "Company") was organized as an Illinois corporation in February 1990 and reincorporated in Delaware in May 1995. Spyglass entered the Internet market during fiscal 1994 and, from fiscal 1994 through fiscal 1996, focused its efforts on developing, marketing and distributing Internet client and server technologies for incorporation into a variety of Internet-based software products and services. Since fiscal 1997, the Company has been focusing on the development, marketing and distribution of its technologies and services to the non-PC Internet device marketplace. In February 1998, Spyglass reorganized its business to integrate its development, professional services and marketing resources. This change has allowed Spyglass to target its tailored solutions to the needs of the various vertical sectors within the Internet device market.

Spyglass provides its customers with expertise, software and professional services that enable them to rapidly develop cost-effective Internet-enabled devices. Spyglass professional services include custom engineering for defining, developing and delivering complete, end-to-end project solutions. Spyglass solutions have been integrated into a variety of products, including but not limited to televisions, office equipment, television set-top boxes, industrial controls, network computers and screen and cellular phones. In addition, several major corporations have deployed SurfWatch, a leading content filtering software designed to block unwanted material from the Internet.

Spyglass acquired Stonehand Inc. ("Stonehand"), OS Technologies Corporation ("OS Tech") and SurfWatch Software, Inc. ("SurfWatch"), in fiscal 1996 in transactions accounted for as poolings of interests. All financial information presented includes the accounts and results of operations of these companies for all periods presented.

In November 1997, Spyglass acquired AllPen Software ("AllPen) in a transaction accounted for as a pooling of interests. Because the effect of this transaction on prior year financial statements was considered immaterial, such financial statements were not restated; instead, the Company's equity accounts were adjusted for the effect of the pooling.

In October 1998, General Instrument Corporation ("GI") acquired 700,000 shares of the Company's common stock for \$7,392,000 and also acquired warrants to purchase an additional 700,000 shares. The warrants have exercise prices ranging from \$13.20 to \$14.78 per share (subject to adjustment in certain circumstances), and become exercisable on varying dates over a five-year period. In connection with this investment, the Company and GI entered into a three-year agreement under which the Company will develop and integrate new Internet cable services and technologies for GI. This work will be performed through a newly-formed subsidiary of the Company, in which GI will hold a 10% minority interest and which GI will have an option to purchase at fair market value under certain circumstances.

The Company licenses technology from a number of third-party vendors for incorporation into the Company's products. As a result, the Company pays royalties to the University of Illinois with respect

to licenses of Spyglass Device Mosaic, to RSA Data Security, Inc. with respect to licenses of the Company's technologies containing certain RSA code and to Sun Microsystems, Inc. with respect to licenses of the Company's technologies containing certain Java code. These and other royalties are reflected in cost of Internet technology revenues.

On January 21, 1997, the Company amended its license arrangement with Microsoft Corporation ("Microsoft") to convert Microsoft's existing license for the Spyglass Mosaic browser technology into a fully paid-up license in consideration of an additional \$8,000,000 payment from Microsoft. Spyglass recognized the revenue from this payment in the quarter ended March 31, 1997. Management believes that its results of operations, presented without giving effect to this one-time event, provide a more accurate presentation of the Company's ongoing business. Accordingly, the following analyses for the fiscal year ended September 30, 1997, including amounts and percentages, exclude the \$8,000,000 of revenue as well as the associated \$600,000 of cost of sales and \$400,000 of sales expense for the fiscal year ended September 30, 1997. Approximately 39.5% of the Company's revenues for fiscal 1997 were attributable to Microsoft.

Results of Operations

The following table sets forth certain financial data as a percentage of total net revenues for the fiscal years ended September 30, 1998, 1997 and 1996.

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[CAPTION]

	Percentage of Total Net Revenues for the Fiscal Years Ended September 30,		
	1998	1997	1996
[S]	[C]	[C]	[C]
Net revenues:			
Internet technology	56.9%	69.2%	87.3%
Service	43.1	30.8	12.7
Total net revenues	100.0	100.0	100.0
Cost of revenues:			
Internet technology	9.0	7.0	8.6
Service	16.5	11.2	0.5
Total cost of revenues	25.5	18.2	9.1
Gross profit	74.5	81.8	90.9
Operating expenses and other:			
Sales and marketing	44.4	59.5	26.7
Research and development	44.8	102.6	30.6
General and administrative	28.0	50.9	17.2
Restructuring charge	-	6.8	-
One-time acquisition costs	2.4	-	-
Total operating expenses and other	119.6	219.8	74.5
Income (loss) from operations	(45.1)	(138.0)	16.4
Other income, net	6.0	12.2	7.8
Income (loss) before income taxes	(39.1)	(125.8)	24.2
Provision for income taxes	-	-	8.7
Net income (loss)	(39.1)%	(125.8)%	15.5%

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Fiscal Year Ended September 30, 1998 Compared with Fiscal Year Ended September 30, 1997

Internet technology revenues for the year ended September 30, 1998 increased \$2,467,000, or 27%, to \$11,661,000 compared to \$9,194,000 for the year ended September 30, 1997. This growth was

due primarily to an increase in licensing revenues from device manufacturers. One customer accounted for 17% of fiscal 1998 Internet technology revenues. Internet technology revenues from vendors of desktop software applications, excluding SurfWatch revenues, decreased \$3,986,000 while revenues from device manufacturers increased \$5,752,000. During the development of the Internet device market, initial Internet technology revenues on a given contract will typically comprise a smaller component of total expected Internet technology revenues than was previously recorded in licensing the desktop software applications. Internet technology revenues derived from future royalties will be realized as customers commercially deploy devices utilizing the Company's technology and the royalty revenue stream commences. The Company expects continued growth in Internet technology revenues during fiscal 1999 due to the anticipated increase in product development activities by device manufacturers in multiple vertical markets.

Service revenues, which include both professional services revenues and revenues from customer support agreements, increased \$4,732,000, or 115%, to \$8,833,000 for the year ended September 30, 1998 compared to \$4,101,000 for the year ended September 30, 1997. Revenues from professional services increased approximately \$5,352,000 for the year ended September 30, 1998 compared to the year ended September 30, 1997. This increase was due to management's focus on building an integrated development and service organization that provides customized solutions to its customers within the vertical sectors of the Internet device market which resulted in an increase in the number and dollar value of professional services agreements. Revenues from customer support agreements decreased \$620,000 during the same time period. In October 1998, the Company announced an agreement with GI which will provide approximately \$20,000,000 in professional services revenue over the next three years. As a result, the Company expects professional services revenues during fiscal 1999 to increase both in absolute dollars and as a percentage of total net revenues over fiscal 1998. Service revenues from customer support agreements, as a percentage of total net revenues, are expected to decline during the same period.

Gross profit, as a percentage of revenues, was 74.5% for the year ended September 30, 1998 compared to 81.8% for the year ended September 30, 1997. This reduction was partially a result of a change in the revenue mix, as total net revenue consisted of a higher percentage of lower margin professional services revenues, and a reduction in Internet technology margins related to increased product royalty costs. The Company expects gross profit as a percentage of revenues to decline slightly throughout fiscal 1999 as professional services revenues continue to increase as a percentage of total net revenues. That margin decline is expected to be partially offset by improved gross margins from Internet technology revenues as royalty costs associated with third-party software are expected to decline.

Sales and marketing expenses for the year ended September 30, 1998 increased \$1,190,000, or 15%, to \$9,101,000 from \$7,911,000 for the year ended September 30, 1997, but decreased as a percentage of revenues to 44.4% from 59.5%. Factors contributing to this increase were \$791,000 in additional compensation and personnel expenses incurred as a result of the addition of sales and marketing staff, primarily in international locations as well as at the Company's SurfWatch business unit, and the compensation expense related to amortization of restricted stock issued to certain officers of the Company. Additionally, the Company increased its fiscal 1998 marketing program expenditures by \$425,000 in its efforts to promote its solutions to customers in the device market, primarily the television and set-top box market, and to increase customer and industry awareness of its SurfWatch products. These increases were partially offset by a decrease in travel and travel-related expenses of approximately \$175,000 primarily due to decreases in trade show expenses resulting from

the shift in focus from the desktop market to the Internet device market. The Company expects sales and marketing expenses for fiscal 1999 to remain approximately the same, in dollars, as in fiscal 1998.

Research and development expenses for the year ended September 30, 1998 decreased \$4,471,000, or 33%, to \$9,173,000 compared to \$13,644,000 for the year ended September 30, 1997, and decreased as a percentage of revenues to 44.8% from 102.6%. The decrease in research and development costs was due primarily to a decrease in salary costs and related personnel expenses of \$4,118,000 as a result of the increased utilization of development engineers in a professional services role, as reflected by the increase in cost of service revenues, as well as an overall reduction in engineering staff. The Company believes that its direct investment in research and development is sufficient when combined with its retained ownership in the engineering developments of its professional service engineers. As a result of the changes noted above, the Company expects its research and development expenses in fiscal 1999 to decrease both in dollars and as a percentage of revenues.

General and administrative expenses decreased \$1,027,000, or 15%, to \$5,742,000 for the year ended September 30, 1998 from \$6,769,000 for the year ended September 30, 1997 and decreased as a percentage of revenues to 28.0% from 50.9%. The decrease was a result of a \$720,000 reduction in bad debt expense, a combined \$464,000 reduction in conference, travel and meeting expenses, and a \$403,000 decrease in consulting expense. This decrease was partially offset by an increase in salary and related personnel expenses of \$614,000 due primarily to the issuance of restricted stock to officers of the Company. The Company expects general and administrative costs to increase in absolute dollars, but decline as a percent of revenues, in fiscal 1999.

On March 10, 1997, the Company consolidated its Champaign, Illinois development operations with its Naperville, Illinois and Cambridge, Massachusetts operations. This consolidation reflected the Company's evolution from its desktop focus to the Internet device market and the realignment of its product development activities with the needs of this market. As a result, a restructuring charge of \$900,000 was recorded in the second quarter of fiscal 1997, consisting primarily of severance and related personnel costs of \$730,000 and lease cancellation and other exit costs of \$170,000. Included in the charge for personnel costs was \$100,000 of compensation expense related to the acceleration of the exercisability of certain stock options. The decrease in facility costs related to the closing of the Champaign facility has been offset by expansion within existing facilities as well as expansion into new facilities.

In connection with the acquisition of AllPen Software in November 1997, the Company recorded a charge to operating expenses of \$496,000 or \$0.04 per share for direct acquisition related costs consisting primarily of professional fees.

The Company recorded no income tax benefit for fiscal years 1998 and 1997. This reflects a decision by the Company not to recognize income tax benefits associated with the Company's operating losses generated during such years. The Company believes that it is appropriate to defer recognition of potential tax benefits until such time as its return to profitability can provide assurances that these tax benefits will be realized.

Fiscal Year Ended September 30, 1997 Compared with Fiscal Year Ended September 30, 1996

Internet technology revenues for the year ended September 30, 1997 decreased \$10,272,000, or 53%, to \$9,194,000 compared to

\$19,466,000 for the year ended September 30, 1996. This decrease in Internet technology revenues was due primarily to a significant decline in revenues from vendors of desktop software applications combined with slower than anticipated development of the Internet device market as the Company redirected its strategic focus to this market during fiscal 1997. Specifically, Internet technology revenues from vendors of desktop software applications decreased to \$6,353,000 from \$17,971,000 while revenues from device manufacturers increased to \$2,841,000 from \$1,495,000.

Service revenues increased \$1,260,000, or 44%, to \$4,101,000 for the year ended September 30, 1997 compared to \$2,841,000 for the year ended September 30, 1996. The increase in service revenues was due primarily to the increase in the number of professional services agreements entered into by the Company. Revenues from professional services were \$2,179,000 in fiscal 1997 compared to \$559,000 for fiscal 1996,

Gross profit as a percentage of revenues was 81.8% for the year ended September 30, 1997 compared to 90.9% for the year ended September 30, 1996. This decrease in gross profit percentage resulted primarily from an increase in professional services revenues as a percentage of both total net revenues and service revenues, which have significantly higher costs as a percentage of revenues than technology revenues. Additionally, the cost of service revenues increased, as a percentage of service revenues, to 36.4% for fiscal 1997 from 4.2% for fiscal 1996.

Sales and marketing expenses for the year ended September 30, 1997 increased \$1,948,000, or 33%, to \$7,911,000 from \$5,963,000 for the year ended September 30, 1996, and increased as a percentage of revenues to 59.5% from 26.7%. The increased expenses reflected staff additions in sales, marketing and customer services to support the sale and marketing of Spyglass technologies. These additions increased the cost of salary and related personnel expenses by \$1,309,000 and increased related facility costs by \$412,000 between fiscal 1997 and fiscal 1996. Advertising costs decreased \$336,000 between these periods due to the cancellation of a monthly advertising service associated with previous marketing programs targeting the desktop marketplace.

Research and development expenses for the year ended September 30, 1997 increased \$6,843,000, or 101%, to \$13,644,000 compared to \$6,801,000 for the year ended September 30, 1996, and increased as a percentage of revenues to 102.6% from 30.6%. The increase in research and development costs was due primarily to costs of additional personnel required to provide enhancements to existing technologies as well as the relocation of personnel to geographic areas in which higher salaries are required, all of which increased the costs of salary and related personnel expenses by \$4,642,000 for fiscal 1997 when compared to fiscal 1996. Additionally, facility costs increased \$1,870,000 between these periods as the Company consolidated its Champaign, Illinois research and development operations into its Naperville, Illinois and Cambridge, Massachusetts operations, which had higher facility costs than the Champaign facility. The Company believes that it was necessary to make significant investments in research and development and acquisitions of new technologies to remain competitive and establish a leadership position in the emerging Internet device market.

General and administrative expenses increased \$2,923,000, or 76%, to \$6,769,000 for the year ended September 30, 1997 from \$3,846,000 for the year ended September 30, 1996 and increased as a percentage of revenues to 50.9% from 17.2%. The increase in general and administrative expenses was due primarily to increases in personnel at corporate headquarters, which increased salary and related personnel expenses by \$2,076,000. Bad debt expense

increased by \$728,000 as the Company wrote off certain accounts receivable balances related to its desktop software application business as the Company transitioned to the Internet device market. Additionally, in order to effectively and rapidly transition the focus of the Company from the desktop market to the Internet device market it was necessary to incur significantly more conference, travel and meeting expenses, which increased general and administrative expenses by \$495,000 for fiscal 1997 compared to fiscal 1996.

The Company recorded no income tax benefit for the fiscal year ended September 30, 1997 as compared to a provision for income taxes of \$1,951,000 for the fiscal year ended September 30, 1996.

Liquidity and Capital Resources

As of September 30, 1998, the Company had no debt and had cash and cash equivalents of \$22,655,000 and working capital of \$26,273,000. The Company's operating activities used cash of \$7,193,000, \$4,114,000 and \$822,000 for the fiscal years ended September 30, 1998, 1997 and 1996, respectively. Additionally, the Company's operating cash flow for fiscal 1997 was impacted by the \$7,500,000 in cash received from Microsoft during the quarter ended March 31, 1997 in connection with the amendment to the Company's license arrangement with Microsoft as discussed in the Overview section.

Subsequent to the end of fiscal 1998, the Company received \$7,392,000 in cash from GI for the purchase by GI of 700,000 shares of the Company's common stock.

The Company's current net accounts and unbilled receivables increased to \$5,606,000 at September 30, 1998 from \$3,792,000 at September 30, 1997. This increase was primarily due to an increase in revenues for the fourth quarter of fiscal 1998.

The Company's capital expenditures totaled \$443,000, \$3,330,000 and \$2,905,000 for the fiscal years ended September 30, 1998, 1997 and 1996, respectively, and consisted primarily of computer hardware and software. The Company had no material commitments for capital expenditures at September 30, 1998. In October 1998, the Company entered into an agreement with GI to form a new digital cable software integration center. The formation of the integration center will require the purchase of computer hardware and software and office furniture. While no commitments for such expenditures have been formally entered into, the Company estimates that such expenditures will range from \$250,000 to \$425,000 during fiscal 1999.

The Company believes that its current cash and cash equivalents, as well as cash flow from operations, will be sufficient to finance the Company's cash flow requirements through at least fiscal 1999.

Future Operating Results

This Annual Report contains a number of forward-looking statements. Any statements contained herein (including without limitation statements to the effect that the Company or its management "believes", "expects", "anticipates", "plans" and similar expressions) that are not statements of historical fact should be considered forward-looking statements. There are a number of important factors that could cause the Company's actual results to differ materially from those indicated by such forward-looking statements. These factors include, without limitation, those set forth below.

During fiscal 1997, the Company announced a new strategic focus on the Internet device market. The Company is now focused on

the development, marketing and distribution of its technologies and services to the non-PC Internet device marketplace. Because this is a new and undeveloped market, there can be no assurance as to the extent of the demand for the Company's products and services or the extent to which the Company will be successful in penetrating this market.

The Company derived approximately 15% of its revenues for the fiscal year ended September 30, 1998 from Motorola Corporation and 39.5% of its revenues for the fiscal year ended September 30, 1997 from Microsoft Corporation. As the Internet device market develops, the Company expects to continue to derive a significant portion of its revenues from a relatively limited number of customers. Although the Company expects that its reliance on any particular customer will decline as the Internet device market develops and its customer base expands, the failure of the Company to enter into a sufficient number of licensing agreements or sustain revenues from major customers during a particular period could have a material adverse effect on the Company's future operating results.

The Company's future results of operations will also be largely dependent upon a number of factors relating to the further development and acceptance of the Internet as a commercial market. In particular, commercial use of the Internet continues to be constrained by the need for reliable processes such as security measures for electronic commerce as well as the need for regularly available customer support. In addition, the market for Internet software products is characterized by rapidly changing technology, evolving industry standards and customer demands, and frequent product introductions and enhancements, which make it difficult to predict whether the initial commercial acceptance of the Company's solutions can be sustained over a period of time.

The market for Internet technologies and services is extremely competitive, and competition is likely to increase in the future. The Company currently faces competition from other Internet device technology vendors and service providers such as Oracle, Sun Microsystems, Microsoft, on-line service companies, Internet access providers and networking software companies. Additionally, the Company considers a significant source of competition for its Internet technologies and professional services to be the prospect company's internal resources.

The Company provides its products and services to manufacturers and service providers within the cable and satellite television, wireless, telecommunications, office equipment, automotive and industrial control markets who then incorporate the Company's technology into their products and services. The success of the Company is therefore dependent in large part on the performance of its customers and the market acceptance of its customers' products, which is outside of the Company's control.

In October 1997, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") No. 97-2, Software Revenue Recognition, which superseded SOP No. 91-1. SOP No. 97-2 is effective for the Company's 1999 fiscal year which began on October 1, 1998 and provides guidance on applying generally accepted accounting principles for recognizing revenue on software transactions. Based on the Company's interpretation of the requirements of SOP No. 97-2, application of this statement is not expected to have a material impact on the Company's revenue. However, certain provisions of SOP No. 97-2 are currently being reviewed by the accounting profession with the objective of providing additional guidance on implementation of the SOP. Depending upon the outcome of this review and the issuance of implementation guidelines and potential interpretations, the Company may be required to modify its revenue recognition policies and business practices, and such change could have the effect of deferring the recognition of revenue.

The Company from time to time receives notices alleging that its products infringe third-party proprietary rights. Patent and similar litigation frequently is complex and expensive and its outcome can be difficult to predict. If, as a result of proprietary rights infringements by any of the Company's products, the Company is required to discontinue sales of certain products, eliminate certain features on its products, or pay royalties to another party, the Company's future operating results could be materially adversely affected.

The Company's quarterly operating results have varied and they may continue to vary significantly depending on factors such as the timing of significant license or service agreements, the terms of the Company's licensing and service arrangements with its customers and the timing of new product introductions and upgrades by the Company and its competitors. The Company typically structures its license agreements with customers to require commitments for a minimum number of licenses, and license revenues are recognized as the committed licenses are purchased. Additional revenues from a customer will not be earned unless and until the initial committed levels are exceeded. The Company's revenues in any quarter will depend in significant part on its ability to license technologies and provide services to new customers in that quarter and the timing of product deployment by its customers. The Company typically structures its professional services agreements with customers to recognize revenue on the percentage of completion method of accounting. The Company's expense levels are based in part on expectations of future revenue levels and any shortfall in expected revenue could therefore have a disproportionate adverse effect on the Company's operating results in any given period.

Impact of Year 2000

The "Year 2000" issue refers to the problem of certain computer programs using abbreviated years with two digits and thus being unable to distinguish, for example, whether the year "00" means 1900 or 2000 which may lead to such software failing to operate or operating with erroneous results.

The Company has assembled a cross-department task force to address the Year 2000 issue. The task force is addressing Spyglass products, third-party software and products used by the Company and software utilized by third parties that perform services for the Company.

The task force has completed the assessment phase of its overall plan. The assessment phase included a review of Spyglass products and, as a result of these initial assessments, the Company has determined that all new Spyglass products and technologies currently licensed are Year 2000 compliant or will be so certified as new versions and utilities are released. However, known or unknown errors or defects in Spyglass' products could result in delay or loss of revenue, diversion of development resources, increased service and warranty costs or damage to Spyglass' reputation, any of which could materially adversely affect Spyglass' results of operations or financial condition. In addition, the task force investigated other associated Year 2000 issues such as ensuring that third-party software used internally and other products and services supplied to Spyglass are Year 2000 compliant. This investigation included but was not limited to review of vendor and related Web sites and direct confirmation with significant vendors. The majority of Spyglass' computer programs have been purchased and implemented over the last three years. As a result, most of these programs were Year 2000 compliant when purchased or have since been upgraded with Year 2000 compliant software upgrades. In the event third party internally used systems are not Year 2000 compliant, the Company's ability to process vendor transactions and perform certain other functions could be impaired. Additionally, Spyglass has no legacy (mainframe)

systems, which are the source of much of the current concern regarding Year 2000 compliance. During the assessment phase, the Company received direct confirmation that most material internally used systems will operate in the year 2000.

The second and current phase in the task force's efforts is to plan and conduct testing to confirm Year 2000 compliance on products and services in which Year 2000 compliance is in question. For those products and services that fail testing or are assessed as non-compliant, Spyglass will implement any required software modifications and/or replacements of those products so that such products will function properly with respect to dates in the year 2000. The task force has a May 1999 target date to complete its testing efforts. Upon completion of its testing phase, the task force will determine a time period during which to implement any necessary changes.

Spyglass does not currently have any information with regard to Year 2000 compliance of any of its customers. As is the case with all similarly situated companies, Spyglass' results of operations could be materially impacted if its customers encounter Year 2000 issues unrelated to Spyglass products and services. In such a scenario, it is reasonably likely that these customers would channel resources into products and activities unrelated to products that utilize Spyglass technologies and/or services, potentially limiting Spyglass' future revenues from these customers.

The Company does not currently have a contingency plan in the event that Spyglass products or third-party products and services incur Year 2000 problems. Such a plan will be devised if and when it has been determined that overall Year 2000 compliance is in question.

As of September 30, 1998, the only Year 2000 cost incurred by the Company has been the value of the time, based on standard hourly rates for employees, spent by the task force, which approximates \$60,000. The Company estimates it will incur approximately \$240,000 in future expenses to ensure systems will function properly with respect to dates in the year 2000. These expenses are not expected to have a material impact on the financial position, cash flow or operations of the Company.

The costs and scope of the Company's Year 2000 compliance efforts are based on management's best estimates which utilize numerous assumptions of future events. However, there can be no guarantee that these estimates and assumptions will be realized. Furthermore, the actual impact of the Year 2000 issue could materially differ from that anticipated.

<TABLE>
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Consolidated Statements of Operations
For the Fiscal Years Ended
September 30,

(In thousands, except per share amounts)	1998	1997	1996
<S>	<C>	<C>	<C>
Net revenues:			
Internet technology	\$11,661	\$17,194	\$19,466
Service	8,833	4,101	2,841
Total net revenues	20,494	21,295	22,307
Cost of revenues:			
Internet technology	1,843	1,535	1,912
Service	3,377	1,493	118
Total cost of revenues	5,220	3,028	2,030
Gross profit	15,274	18,267	20,277

Operating expenses and other:			
Sales and marketing	9,101	8,311	5,963
Research and development	9,173	13,644	6,801
General and administrative	5,742	6,769	3,846
Restructuring charge	-	900	-
One-time acquisition costs	496	-	-
Total operating expenses and other	24,512	29,624	16,610
Income (loss) from operations	(9,238)	(11,357)	3,667
Other income, net	1,222	1,622	1,744
Income (loss) before income taxes	(8,016)	(9,735)	5,411
Provision for income taxes	-	-	1,951
Net income (loss)	\$ (8,016)	\$ (9,735)	\$ 3,460
Net income (loss) per common share-basic	\$ (0.60)	\$ (0.81)	\$ 0.30
Net income (loss) per common share-diluted	\$ (0.60)	\$ (0.81)	\$ 0.27
Weighted average number of common shares outstanding -basic	13,395	12,090	11,620

Weighted average number of common shares outstanding -diluted	13,395	12,090	12,875
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See accompanying Notes to the Consolidated Financial Statements
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Consolidated Balance Sheets
September 30,

(In thousands)	1998	1997
<S>		
ASSETS	<C>	<C>
Current assets:		
Cash and cash equivalents	\$ 22,655	\$ 22,841
Short-term investments	-	4,929
Accounts receivable, net of allowance for doubtful accounts of \$429 and \$350, respectively	4,704	3,792
Unbilled accounts receivable	902	-
Prepaid expenses and other current assets	2,461	2,195
Total current assets	30,722	33,757
Properties and equipment, net	3,585	5,037
Other assets	268	1,786
Total Assets	\$ 34,575	40,580
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,493	1,817
Royalties payable	541	345
Deferred revenues	786	1,256
Accrued compensation and related benefits	1,466	1,322
Accrued expenses and other liabilities	163	173
Total current liabilities	4,449	4,913

Long-term deferred revenues	50	100
Total liabilities	4,499	5,013
Stockholders' equity:		
Preferred stock, \$.01 par value, 2,000,000 shares authorized, none issued		
Common stock, \$.01 par value, 50,000,000 shares authorized, 13,944,433 and 12,362,823 shares issued and 13,934,719 and 12,362,823 shares outstanding, respectively	139	124
Additional paid-in capital	43,886	40,746
Accumulated deficit	(13,357)	(5,303)
Treasury stock at cost, 9,714 shares in 1998	(55)	-
Unamortized value of restricted stock issued	(537)	-
Total stockholders' equity	30,076	35,567
Total Liabilities and Stockholders' Equity \$	34,575	40,580

See accompanying Notes to the Consolidated Financial Statements
</TABLE>

<TABLE>

SPYGLASS, INC.

Consolidated Statements of Changes in Stockholders' Equity

	Common Stock Shares	Additional Paid-in Capital	Retained Earnings/ (Accumulated Deficit)	Treasury Common Stock Share	Unamortized Value of Restricted Stock Issued
(In thousands, except share amounts)					
<S>	<C>	<C>	<C>	<C>	<C>
Balance at September 30, 1995	11,406,645	\$ 114	\$ 36,528	\$ 972	-
Exercise of stock options	394,499	4	531		
Exercise of employee stock purchase plan stock options	18,401		266		
Issuance of incentive stock options			80		
Tax benefit from exercise of stock options			1,936		
Net income			3,460		
Balance at September 30, 1996	11,819,545	118	39,341	4,432	-
Exercise of stock options	497,882	5	731		
Exercise of employee stock purchase plan stock options	45,396	1	362		
Issuance of incentive stock options			80		
Accelerated vesting of options			232		
Net loss			(9,735)		
Balance at September 30, 1997	12,362,823	124	40,746	(5,303)	-
Adjustment for acquisition accounted					

for as a pooling of interests	639,246	6	204	(38)			
Exercise of stock options	658,327	6	1,519				
Exercise of employee stock purchase plan stock options	74,323	1	391				
Issuance of restricted stock	200,000	2	1,011				(1,011)
Amortization of deferred compensation relating to issuance of restricted stock							474
Purchase of treasury stock					9,714	(55)	
Accelerated vesting of options			15				
Net loss				(8,016)			
Balance at September 30, 1998	13,934,719	\$139	\$43,886	\$(13,357)	9,714	\$ (55)	\$(537)

See accompanying Notes to the Consolidated Financial Statements

</TABLE>
<TABLE>
<CAPTION>

Consolidated Statements of Cash Flows
For the Fiscal Years Ended
September 30,
1998 1997 1996

<S>			
(In thousands)	<C>	<C>	<C>
Cash flows from operating activities:			
Net income (loss)	\$ (8,016)	\$ (9,735)	\$ 3,460
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation	1,993	1,742	694
Amortization	1,315	157	211
Loss on disposal of fixed assets	15	99	21
Amortization of deferred compensation related to issuance of restricted stock	474	-	-
Bad debt provision	309	1,029	301
Deferred income taxes	-	-	(406)
Incentive stock option compensation	15	312	80
Other	-	-	(201)
Changes in operating assets and liabilities:			
Accounts and long-term receivables	3,155	(3,066)	(783)
Unbilled accounts receivable	(902)	-	-
Prepaid expenses, other current assets and other assets	(21)	(1,008)	(1,504)
Accounts payable	(327)	360	415
Royalties payable	196	(358)	279
Deferred revenues	(894)	(307)	(1,071)
Accrued compensation and related benefits	(541)	370	348
Accrued expenses and other liabilities	(23)	70	(383)
Net cash used in operating activities	(7,190)	(4,114)	(822)
Cash flows from investing activities:			
Cash acquired in business combination	574	-	-

Short-term investments, net activity	4,929	12,664	(17,593)
Proceeds from sale of fixed assets	82	32	-
Capital expenditures	(443)	(3,330)	(2,905)
Net cash provided by (used in) investing activities	5,142	9,366	(20,498)
Cash flows from financing activities:			
Proceeds from exercise of stock options, including tax related benefits in 1996	1,917	1,099	2,938
Purchase of treasury stock	(55)	-	-
Net cash provided by financing activities	1,862	1,099	2,938
Net increase (decrease) in cash and cash equivalents	(186)	6,351	(18,382)
Cash and cash equivalents at beginning of period	22,841	16,490	34,872
Cash and cash equivalents at end of period	\$ 22,655	\$ 22,841	\$ 16,490
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	\$ 6	\$ 28	\$ 169

See accompanying Notes to the Consolidated Financial Statements
</TABLE>

Notes to the Consolidated Financial Statements

Note 1. Operations and Significant Accounting Policies

Operations

Spyglass, Inc. ("Spyglass" or the "Company") develops, markets and distributes Internet technologies designed to be embedded inside various end-user products, including but not limited to televisions, office equipment, television set-top boxes, network computers and Internet access services. Spyglass technology offerings include Spyglass Device Mosaic (formerly Spyglass Mosaic), Spyglass Remote Mosaic, Spyglass Prism, Spyglass MicroServer, Spyglass Device Mail, and SurfWatch client and server products. Spyglass also offers Internet consulting and custom engineering services through its professional services organization. These technologies are used to bring Internet functionality to customers' products and services.

On November 14, 1997, the Company acquired AllPen Software ("AllPen") in a transaction accounted for as pooling of interests. AllPen, located in Los Gatos, California, develops software solutions and technologies and provides professional services for the Internet device marketplace. This transaction was effected through the exchange of 639,246 shares of common stock of Spyglass for all the issued and outstanding shares of AllPen. Because the effect of this transaction was considered immaterial, Spyglass' financial statements were not restated; instead, the Company's equity accounts were adjusted for the effect of the pooling. In connection with the acquisition of AllPen, the Company recorded a charge to operating expenses of \$496,000 or \$0.04 per share for direct acquisition related costs consisting primarily of professional fees.

In May 1996, the Company formed Spyglass International, Inc., a wholly-owned subsidiary. Spyglass International, Inc. is a U.S. subsidiary that has one branch office in Japan. In January 1997, the Company formed Spyglass Europe Ltd., a wholly-owned subsidiary of Spyglass International, Inc. with an office in England.

In April 1996, the Company acquired OS Technologies Corporation ("OS Tech") and SurfWatch Software, Inc. ("SurfWatch") in transactions accounted for as poolings of interests. As a result, all financial information includes the accounts and results of operations of OS Tech and SurfWatch, respectively, for all periods presented.

In February 1996, the Company acquired Stonehand Inc. ("Stonehand"), in a transaction accounted for as pooling of interests. As a result, all financial information includes the accounts and results of operations of Stonehand for all periods presented.

On November 28, 1995, the Board of Directors declared a two-for-one common stock split effected in the form of a 100% stock dividend paid on December 20, 1995 to stockholders of record as of December 6, 1995. All share and per share information in the accompanying consolidated financial statements and related notes thereto prior to December 20, 1995 has been restated to reflect the two-for-one common stock split for all periods presented.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances between the companies have been eliminated.

University of Illinois Agreement

The Spyglass Device Mosaic product is a commercial derivative version of NCSA Mosaic. NCSA Mosaic was developed by the National Center for Supercomputing Applications at the University of Illinois at Urbana-Champaign. In May 1994, the Company and the University entered into an agreement (as amended to date, the "University Agreement") granting the Company the exclusive (subject to approximately 10 previously granted licenses), worldwide right to develop, distribute and sublicense commercial client browsers based on NCSA Mosaic. The University Agreement provides for royalties based on Spyglass' net revenues from Device Mosaic, and includes cumulative minimum quarterly royalties. The University Agreement has an initial term of five years, with automatic one-year renewals, and is terminable in the event of a material breach by the Company of its obligations thereunder. Under the University Agreement, the Company was required to provide the University with source code versions of Spyglass Mosaic through Release 2.5. The University will have the right (subject to certain restrictions) to incorporate these releases of Spyglass Mosaic into new releases of NCSA Mosaic, which will continue to be available on a free-with-copyright basis to organizations for non-commercial academic and research use only. However, the University is not permitted to make NCSA Mosaic available for distribution by resellers other than the Company. The University Agreement gives the Company the exclusive right (with certain limited exceptions) to use the University's trademarks "Mosaic_" and "NCSA Mosaic_" and its spinning globe logo in connection with Device Mosaic on a royalty-free basis (with certain limited exceptions). In addition, the Company has the exclusive right (with certain limited exceptions) to use these marks in connection with the sale of other products for a royalty payment based on net revenues derived from such products.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purposes of the balance sheet and statement of cash flows, all highly liquid investments with original maturities of three months or less are considered cash equivalents.

Investments

Investments with original maturities between three and twelve months are considered short-term investments. Short-term investments consist of debt securities such as commercial paper, time deposits, certificates of deposit, bankers' acceptances, and marketable direct obligations of the United States Treasury.

Other Assets

The Company licenses certain technology from third parties and records prepaid royalty costs associated with these licenses. These prepaid royalty costs are amortized as a percentage of revenues or over the expected period of use. It is the Company's policy to periodically review and evaluate whether the benefits associated with these prepaid royalties are expected to be realized and, therefore, deferral and amortization are appropriate. Approximately \$857,000 and \$441,000 of these prepaid royalties are included in prepaid expenses and other current assets and approximately \$118,000 and \$1,431,000 are included in other assets at September 30, 1998 and September 30, 1997, respectively.

Properties and Equipment

Properties and equipment are stated at cost less accumulated depreciation. Depreciation is determined for financial reporting purposes using the straight-line method over the estimated useful lives of the assets, which range from three to seven years. Depreciation for income tax reporting purposes is determined using accelerated depreciation methods.

Revenue Recognition

The Company recognizes revenues from software licensing arrangements in accordance with the provisions of Statement of Position ("SOP") 91-1, Software Revenue Recognition, issued by the American Institute of Certified Public Accountants ("AICPA"). Internet technology revenues are generally recognized as the licenses are purchased by customers, provided the license agreement does not allow for extended payment terms, and there are no significant remaining obligations under the contract. Service revenues are comprised of revenues from customer support and professional services agreements. Revenues from the sale of support agreements are recognized over the term of the agreement using the straight-line method and related costs are included in operating expenses under the sales and marketing classification. Revenues from professional services agreements are recognized on the percentage of completion method based on the hours incurred relative to total estimated hours for fixed bid contracts or based on the hours incurred multiplied by the hourly rate for time and material engagements. Related costs are reported as a cost of service revenues.

In October 1997, the AICPA issued SOP No. 97-2, Software Revenue Recognition, which superseded SOP No. 91-1. SOP No. 97-2 is effective for the Company's fiscal year beginning October 1, 1998 and provides guidance on applying generally accepted accounting principles for software revenue recognition transactions. Based on the Company's interpretation of the requirements of SOP No. 97-2, application of this statement is not expected to have a material impact on the Company's revenues. However, certain provisions of SOP 97-2 are currently being reviewed by the accounting profession with the objective of providing additional guidance on implementation of the SOP. Depending upon the outcome of this review and the issuance of implementation guidelines and potential interpretations, the Company may be required to change its revenue recognition policies and business practices, and such change could have the effect of deferring the recognition of revenue.

Accounting for Stock-Based Compensation

The Company has elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25") and related interpretations in accounting for its employee stock options.

Under APB 25, if the Company's stock option plans are considered fixed plans, no compensation expense is recognized if the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant. If the option grants are not fixed at an amount at least equal to fair market value, the Company recognizes compensation expense based on the intrinsic value on the measurement date. The Company has included the disclosure provision of Statement of Financial Accounting Standard ("SFAS") No. 123, Accounting for Stock-Based Compensation, which requires pro-forma information regarding net income and earnings per share determined as if the Company had accounted for its employee stock options under the fair value method of that Statement.

Per Share Information

In 1997, the Financial Accounting Standards Board issued SFAS No. 128, Earnings per Share, which was adopted by the Company in December 1997. SFAS No. 128 replaced the previously reported primary and fully diluted earnings per share with basic and diluted earnings per share. Basic earnings per share excludes any dilutive effect of options, warrants and convertible securities. Diluted earnings per share assumes the conversion of all securities which are exercisable or convertible into common stock and which would either dilute or not affect basic earnings per share. All earnings per share amounts for all periods have been presented and, where necessary, restated to conform to SFAS No. 128 requirements.

Earnings per share-basic was calculated by dividing net income by the weighted average number of common shares outstanding during the period. Earnings per share-diluted was calculated by dividing net income by the sum of the weighted average number of common shares outstanding plus all common shares that would have been outstanding if potentially dilutive common shares had been issued. Diluted weighted average shares for 1996 excludes the impact of common stock options of 11,202 shares because the options' exercise prices were greater than the average market price of the common stock and, therefore, the effect would be anti-dilutive.

The table below reconciles the number of shares utilized in the earnings per share calculations for the fiscal years ending September 30, 1998, 1997 and 1996, respectively.

(In thousands)	For the Fiscal Years Ended		
	September 30,		
<S>	1998	1997	1996
<C>	<C>	<C>	<C>
Weighted average number of common shares outstanding _ basic	13,395	12,090	11,620
Effect of dilutive securities, stock options	-	-	1,255
Weighted average number of common shares outstanding _ diluted	13,395	12,090	12,875

Advertising Costs

The Company expenses advertising costs as incurred.

Segment Reporting

In June 1997, the Financial Accounting Standards Board issued SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, which becomes effective for the Company's fiscal year ending September 30, 1999. SFAS No. 131 broadens the definition of operating segments and requires additional disclosures about such segments. The Company anticipates that the adoption of this standard will result in reporting more than one segment and is currently evaluating its operating segments.

Reclassification

Certain prior year amounts have been reclassified to conform with the current year's presentation.

Note 2. Cash Equivalents and Short-term Investments

The following is a summary of cash equivalents and short-term investments at amortized cost:

<TABLE>

<CAPTION>

(In thousands)	September 30,	
	1998	1997
<S>	<C>	<C>
Commercial paper	\$16,680	\$11,919
U.S. treasury notes	-	1,000
Money market	5,871	9,773
Cash equivalents	22,551	22,692
Cash	104	149
Total cash and cash equivalents	\$22,655	\$22,841
Commercial paper	\$ -	\$ 1,925
U.S. treasury notes	-	3,004
Total short-term investments	\$ -	\$ 4,929

</TABLE>

Since these securities are short-term in nature, changes in market interest rates would not have a significant impact on the fair value of these securities. These securities are carried at amortized cost which approximates fair value. It is the intent of the Company to hold its investments until maturity.

Note 3. Properties and Equipment

Properties and equipment and related accumulated depreciation were as follows:

<TABLE>

<CAPTION>

(In thousands)	September 30,	
	1998	1997
<S>	<C>	<C>
Computer equipment and software	\$5,387	\$5,198
Furniture, fixtures and office equipment	1,939	1,897
Leasehold improvements and other	560	405
	7,886	7,500
Less: Accumulated depreciation	(4,301)	(2,463)
Properties and equipment, net	\$3,585	\$5,037

</TABLE>

Note 4. Income Taxes

The components of the provision for income taxes were as follows:

<TABLE>

(In thousands)	For the Years Ended September 30,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Current:			
Federal	\$ -	\$ -	\$ -
Foreign	121	94	152
State	-	-	-
Total current	121	94	152
Deferred:			
Federal	(121)	(94)	1,444
State	-	-	355

Total deferred (121) (94) 1,799

Provision for income taxes \$ - \$ - \$ 1,951

</TABLE>

A reconciliation of income tax expense to the statutory federal income tax rate follows:

<TABLE>

	For the Years Ended September 30,		
	1998	1997	1996
<S>			
Federal income taxes at statutory rate	<C> 34.0 %	<C> 34.0 %	<C> 34.0%
State income taxes, net of Federal income tax benefit	4.8%	4.8%	4.3%
Valuation allowance	(38.8%)	(38.8%)	- %
Other	- %	- %	(2.2%)
Effective tax rate	-%	- %	36.1%

</TABLE>

Significant components of the Company's net deferred tax assets were as follows:

<TABLE>

<CAPTION>

(In thousands)	September 30,	
	1998	1997
<S>	<C>	<C>
Deferred tax assets:		
Accounts receivable	\$ 189	\$ 151
Accrued expenses and other liabilities	177	223
Net operating loss carryforwards	9,593	6,122
Research and development tax credit carryforwards	1,773	1,338
Foreign tax credit carryforwards	366	246
Amortization of deferred compensation relating to issuance of restricted stock	184	-
Alternative minimum tax credit carryforwards	10	10
Deferred tax assets	12,292	8,090
Deferred tax liabilities:		
Depreciation	(14)	(56)
Deferred tax liabilities	(14)	(56)
Net deferred tax assets	\$12,278	\$ 8,034
Deferred tax asset valuation allowance	(12,278)	(8,034)
Net deferred tax assets	\$ -	\$ -

</TABLE>

The Company changed from the cash to accrual basis for tax reporting purposes at the time of filing its 1997 tax return; as such, 1997 amounts included herein have been restated from the cash to accrual basis.

As of September 30, 1998, the Company had net operating loss carryforwards for income tax purposes of approximately \$24,754,000 which expire in the years 2006-2012. Of this amount, \$13,923,000 relates to tax deductions generated by the exercise of certain incentive stock options by employees which will be available to reduce future income tax liabilities by a total of \$5,395,000. Of this tax benefit, \$2,669,000 was credited to paid-in capital to offset deferred tax liabilities. The remaining \$2,726,000 is available to offset future deferred tax liabilities as a credit to paid-in capital. The Company recorded a credit to paid-in capital of

\$2,205,000 in fiscal 1996 as a result of such exercises of incentive stock options by employees. No such credits to paid-in capital were recorded in fiscal 1997 or fiscal 1998.

As of September 30, 1998, the Company had research and development credit carryforwards of approximately \$1,773,000, which are available to offset future income tax liabilities and expire in the years 2006-2012.

The valuation allowance increased by \$4,244,000 and \$6,557,000 for the fiscal years ended September 30, 1998 and 1997, respectively, and relates primarily to increases in net operating loss carryforwards. The Company has established the valuation allowance to defer recognition of potential tax benefits until such time that operating results can provide assurance that these tax benefits will be recognized.

Note 5. Stock Incentive Plans

The Company has a 1995 Stock Incentive Plan ("1995 Incentive Plan") which replaced the Company's 1991 Stock Option Plan ("1991 Option Plan"), a 1995 Director Stock Option Plan ("1995 Director Option Plan") and a 1991 Employee Stock Bonus Plan ("1991 Bonus Plan") effective June 27, 1995, when the Company completed its initial public offering. Accordingly, options under the 1991 Option Plan and the 1991 Bonus Plan are not granted in years after 1995 but remain outstanding.

The above plans enable the Company to grant options to purchase common stock, to make awards of restricted common stock and to issue certain other equity-related securities of the Company to any full or part-time employees, officers, directors, consultants or independent contractors of the Company. Stock options entitle the optionee to purchase common stock from the Company for a specified exercise price during a period specified in the applicable option agreement. Restricted stock awards entitle the recipient to purchase common stock from the Company under terms which provide for vesting over a period of time and a right of repurchase in favor of the Company of the unvested portion of the common stock subject to the award upon the termination of the recipient's employment or other relationship with the Company. The plans, except for the 1995 Director Option Plan, are administered by the Compensation Committee of the Board of Directors, which selects the persons to whom stock options and restricted stock awards are granted and determines the number of shares of common stock covered by the option or award, its exercise price or purchase price, its vesting schedule and, in the case of stock options, its expiration date.

Furthermore, the above plans stipulate that the exercise price of any incentive stock option shall not be less than 100% of the fair market value of the common stock at the date of the grant or less than 110% of the fair market value in the case of optionees holding more than 10% of the total combined voting power of all classes of stock of the Company. The exercise periods of incentive stock options cannot exceed 10 years from the date of grant, except for incentive stock options granted to optionees holding more than 10% of the total combined voting power of all classes of stock, which must be exercised within five years. Non-qualified stock options, if any, must be exercised within the time period set forth in the option agreement. Any portion not exercised within the terms as stipulated in the option agreement shall be forfeited.

The Company records as compensation expense the excess, if any, of the fair market value of the common stock at the date of option grant over the option exercise price. Any compensation expense is recognized ratably over the vesting period of the options. The Company recorded compensation expense of approximately \$15,000, \$312,000 and \$80,000 for the years ended September 30, 1998, 1997 and

1996, respectively, relating to options granted with an exercise price below the estimated fair market value of the common stock and the acceleration of the vesting of stock options. Options granted prior to October 1994 and subsequent to the Company's initial public offering have an exercise price approximating the fair market value of the common stock as of their grant date.

1995 Stock Incentive Plan

The maximum number of shares of common stock which may be issued pursuant to the 1995 Incentive Plan is 3,300,000 shares, subject to certain anti-dilution adjustments. Options generally become exercisable over four years, commencing on the one-year anniversary of the date of grant, and accumulate if not exercised. As of September 30, 1998, options to purchase approximately 449,000 shares are available for issue.

The 1995 Incentive Plan further provides for the granting of stock appreciation rights ("SARs") subject to certain conditions and limitations to holders of options under the 1995 Incentive Plan. SARs permit optionees to surrender an exercisable option for any amount equal to the excess of the market price of the common stock over the option price when the right is exercised. There have been no SARs issued under this plan.

Furthermore, the 1995 Incentive Plan provides for the granting of awards of restricted stock entitling recipients to purchase common stock from the Company under terms which provide for vesting over a period of time, as determined by the Board of Directors, and a right of repurchase in favor of the Company of the unvested portion of the common stock subject to the award upon the termination of the recipient's employment or other relationship with the Company. Awards of 200,000 shares of restricted stock, generally vesting over four years in equal annual installments commencing on the one-year anniversary of the date of grant, had been purchased for \$0.01 per share (and had a fair value of \$5.063 on the date of issue) under this plan as of September 30, 1998. Upon issuance of stock under the plan, unearned compensation equivalent to the excess of the market value at the date of grant over the purchase price is offset against stockholders' equity and subsequently amortized over the periods during which the restrictions lapse.

1995 Director Stock Option Plan

Under the Company's 1995 Director Stock Option Plan, the maximum number of shares of common stock which may be issued is 200,000 shares, subject to certain anti-dilution adjustments. Each director who is not otherwise an employee initially elected to the Board of Directors is granted an option, on the date of initial election, to purchase 20,000 shares of common stock. Each such director is also granted, on the date of each Annual Meeting of Stockholders, an option to purchase 5,000 shares. Options become exercisable over four years, commencing on the one-year anniversary of the date of grant, and accumulate if not exercised. As of September 30, 1998, options for 77,900 share were outstanding, of which 9,800 were exercisable.

1995 Employee Stock Purchase Plan

Under the Company's 1995 Employee Stock Purchase Plan ("Stock Purchase Plan"), employees are granted the opportunity to purchase the Company's common stock. The first offering under the Plan commenced on August 16, 1995 and concluded February 15, 1996. Subsequent offerings begin on February 16 and August 16 of each year and conclude on August 15 and February 15, respectively. The price at which the employees may purchase the common stock is 85% of the closing price of the Company's common stock on the Nasdaq National Market on the date the offering period commences or terminates,

whichever is lower. A total of 600,000 shares of common stock have been reserved under this plan. In fiscal 1998, 1997 and 1996, 74,323, 45,396 and 18,401 shares were issued under the Stock Purchase Plan, respectively.

1991 Stock Option Plan

The 1991 Option Plan was terminated effective June 27, 1995, when the Company completed its initial public offering, and was replaced by the 1995 Stock Incentive Plan. Options granted under the 1991 Option Plan generally become exercisable in four equal annual installments, commencing on the date of grant and continuing through the third anniversary of the date of grant, and accumulate if not exercised. Options to purchase 1,520,132 shares of common stock, at prices ranging from \$0.08 to \$4.125 per share, have been granted.

A summary of the 1995 Stock Incentive Plan, 1995 Director Stock Option Plan and the 1991 Stock Option Plan transactions follows:

<TABLE>

<CAPTION>

	September 30,					
	1998		1997		1996	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding, beginning of year	1,970,239	\$5.85	1,989,590	\$8.98	1,493,004	\$2.06
Granted	1,858,924	4.04	1,292,900	9.07	910,099	17.10
Exercised	(858,327)	1.78	(497,882)	1.62	(394,499)	1.21
Forfeited	(613,656)	6.97	(814,369)	12.56	(19,014)	10.85
Outstanding, end of year	2,357,180	\$5.57	1,970,239	\$5.85	1,989,590	\$8.98
Weighted average remaining contractual life	8.60		8.79		8.43	
Options exercisable at year-end	682,326		600,469		658,758	
Weighted average fair value of ptions granted during the year	\$4.94		\$12.16		\$5.39	

</TABLE>

A summary of information on stock options outstanding as of September 30, 1998 follows:

<TABLE>

<CAPTION>

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	Weighted Average Exercise Price
<C>	<C>	<C>	<C>	<C>	<C>	<C>
\$0.08	165,000	4.92	\$0.08	165,000	\$0.08	\$0.08
\$0.40-\$0.58	154,290	7.53	\$0.49	118,144	\$0.46	\$0.46
\$4.13 -\$5.53	919,815	9.26	\$4.94	13,750	\$4.13	\$4.13
\$6.88	532,665	8.52	\$6.88	279,522	\$6.88	\$6.88
\$7.00-\$9.50	527,510	9.00	\$7.82	87,030	\$7.35	\$7.35

\$10.25-\$11.25	55,000	8.74	\$10.63	15,980	\$10.27
\$42.50	2,900	7.32	\$42.50	2,900	\$42.50
\$0.08-\$42.50	2,357,180	8.60	\$5.57	682,326	\$4.36

Stock-Based Compensation

Pro-forma information, as required by Statement of Financial Accounting Standards No. 123, is as follows:

<TABLE>

<CAPTION>

	For the Fiscal Years Ended September 30,		
(In thousands, except per share data)	1998	1997	1996
Net income (loss) as reported	(\$ 8,016)	(\$ 9,735)	\$3,960
Pro-forma net income (loss)	(\$11,655)	(\$14,308)	\$1,306
Net income (loss) per share as reported	(\$0.60)	(\$0.81)	\$0.27
Pro-forma net income (loss) per share	(\$0.87)	(\$1.18)	\$0.10

</TABLE>

In determining the fair value of the options, the Company used the Black-Scholes model and assumed a risk free interest rate of 4.23% and 6.0%, and an expected stock price volatility of 90.0% and 70.2% for 1998 and 1997, respectively. The Company also assumed expected lives of the options ranging from five to six years and no dividends for all years. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, it requires the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the estimated valuations may not necessarily provide a reliable measure of the fair value of the Company's options.

Note 6. Stock Option Exchange Program

The Company uses stock options as a significant element of the compensation of employees, in part because it believes options provide an incentive to employees to maximize shareholder value. Stock options also serve as a means of retaining employees. Because the market value of the Company's common stock in early 1997 had fallen significantly below the exercise price of most outstanding options, the value of such stock options as a means of motivating and retaining employees had been significantly diminished. The Board of Directors concluded that the Company needed to restore the value of the existing stock options as a means of motivating and retaining employees in order to promote the successful implementation of the Company's growth strategies.

As a result, on April 8, 1997, the Board of Directors approved a stock option exchange program (the "Exchange Program"), pursuant to which full-time permanent employees holding stock options under the Company's 1995 Stock Incentive Plan were given the opportunity to exchange the unexercised portion of such options (the "Existing Options") for new options (the "New Options") on a basis of four shares of common stock for every five shares covered by the Existing Option and having an exercise price of \$6.875 per share (the fair market value of the Company's common stock on such date). The New Options expire 10 years from the date of grant and have the same vesting schedule and other terms as the Existing Options cancelled in exchange therefor. Option holders who own more than 1% of the Company's outstanding common stock and Directors were excluded from the Exchange Program. Stock option disclosures in Note 5 have been adjusted to reflect options for approximately

235,000 shares which were forfeited as a result of the Exchange Program.

Note 7. 401(k) Savings Plan

The Company has a salary reduction 401(k) retirement savings plan (the "Plan") covering substantially all of the Company's employees. Participating employees may contribute an amount up to 15% of their eligible compensation, subject to an annual limit. The Company, at the discretion of the Board of Directors, may make contributions to the Plan. The Company contributed \$273,200, \$269,000 and \$118,300 to the Plan in fiscal 1998, 1997 and 1996, respectively.

Note 8. Commitments and Contingencies

The Company leases office facilities under non-cancelable operating lease agreements and has sublease agreements expiring at various dates through fiscal 2002. At September 30, 1998, approximate future minimum lease commitments and receipts under these leases and subleases were as follows:

<TABLE>
<CAPTION>

	Minimum Lease Commitments	Sublease Receipts
(In thousands)		
<C>	<C>	<C>
1999	\$ 1,623	\$ 194
2000	1,265	194
2001	778	194
2002	282	97

</TABLE>

Total rent expense under non-cancelable operating leases was approximately \$1,450,000, \$1,324,000, and \$689,000 for the years ended September 30, 1998, 1997 and 1996, respectively, net of sublease amounts of \$243,000, \$31,000 and \$0, respectively.

Note 9. Significant Customers and Export Revenues

In fiscal 1998, sales to a significant customer represented 15.0% of total net revenues. Sales to another significant customer represented 39.5% and 12.1% of total net revenues in fiscal 1997 and 1996, respectively.

The Company exports products to diverse geographic areas. Substantially all foreign sales; however, are transacted in U.S. dollars and therefore the Company is not exposed to foreign currency market risk. Net export revenues by geographic area were as follows:

<TABLE>
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	For the Fiscal Years Ended September 30,		
(In thousands)	1998	1997	1996
<S>	<C>	<C>	<C>
Japan	\$1,488	\$ 583	\$ 2,094
Other international	899	1,113	1,594
Total net export revenues	\$2,387	\$ 1,696	\$ 3,688

Note 10. Microsoft Amendment

On January 21, 1997, the Company amended its license arrangement with Microsoft. This amendment converted Microsoft's existing license for the Spyglass Mosaic browser technology into a fully paid-up license in consideration of an additional \$8,000,000 payment from Microsoft.

This payment consisted of \$7,500,000 in cash and \$500,000 in software and product maintenance.

Note 11. Restructuring Charge

On March 10, 1997, the Company consolidated its Champaign, Illinois development operations with its Naperville, Illinois and Cambridge, Massachusetts operations. This consolidation reflected the Company's evolution from its desktop focus to the Internet device market and the realignment of its product development activities with the needs of this market. A pre-tax restructuring charge of \$900,000 was recorded in the second quarter of fiscal 1997 and consisted primarily of severance and related personnel costs of \$730,000 and lease cancellation and other exit costs of \$170,000. Included in the charge for personnel costs was \$100,000 of compensation expense related to the acceleration of the exercisability of certain stock options. The restructuring was completed as of September 30, 1997.

Note 12. Subsequent Event

In October 1998, General Instrument Corporation ("GI") acquired 700,000 shares of the Company's common stock for \$7,392,000 and also acquired warrants to purchase an additional 700,000 shares. The warrants have exercise prices ranging from \$13.20 to \$14.78 per share (subject to adjustment in certain circumstances), and become exercisable on varying dates over a five-year period. In connection with this investment, the Company and GI entered into a three-year agreement under which the Company will develop and integrate new Internet cable services and technologies for GI. This work will be performed through a newly formed subsidiary of the Company, in which GI will hold a 10% minority interest and which GI will have an option to purchase at fair market value under certain circumstances.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and stockholders of Spyglass, Inc.

We have audited the consolidated balance sheets of Spyglass Inc. and subsidiaries as of September 30, 1998 and 1997, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of Spyglass, Inc. and subsidiaries as of and for the year ended September 30, 1996 were audited by other auditors whose report dated October 25, 1996, expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Spyglass, Inc. and subsidiaries at September 30, 1998 and 1997, and the consolidated results of their operations and their cash flows for the two years in the period ended September 30, 1998 in conformity with generally accepted accounting principles.

/s/ Ernst & Young LLP
Chicago, Illinois
October 19, 1998

</TABLE>

EXHIBIT 21

Subsidiaries of the Registrant	Jurisdiction of Incorporation
Spyglass International, Inc.	Delaware
SurfWatch Software, Inc.	California
Stonehand Inc.	Massachusetts
OS Technologies Corporation	Massachusetts
Spyglass Europe Ltd.	Delaware
AllPen Software, Inc.	California
Spyglass DSIC, Inc.	Delaware

Consent of Ernst & Young LLP

We consent to the incorporation by reference in the Registration Statements of Spyglass, Inc. on Form S-3 (File Nos. 333-06943, 333-08255, 333-08253 and 333-14643) and on Form S-8 (File Nos. 33-95164, 33-95160, 33-95162, 33-95158, 333-2312, 333-04357 and 333-40831) of Spyglass, Inc. of our reports dated October 19, 1998, with respect to the consolidated financial statements and schedule of Spyglass, Inc. included and incorporated by reference in the Annual Report (Form 10-K) for the year ended September 30, 1998.

/s/ Ernst & Young LLP

Ernst & Young LLP
Chicago, Illinois
December 18, 1998

Consent of PricewaterhouseCoopers LLP

We consent to the incorporation by reference in the Registration Statements of Spyglass, Inc. on Form S-3 (File Nos. 333-06943, 333-08255, 333-08253 and 333-14643) and on Form S-8 (File Nos. 33-95164, 33-95160, 33-95162, 33-95158, 333-2312 and 333-04357) of Spyglass, Inc. of our reports dated October 25, 1996, with respect to the consolidated financial statements and schedule of Spyglass, Inc. included and incorporated by reference in the Annual Report (Form 10-K) for the year ended September 30, 1998.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chicago, Illinois
December 17, 1998

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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