20th June 2016

To the Chairperson of the LDS Board,

Dear Nichole,

Firstly, let me thank the LDS Board for its consideration and acceptance of services provided by Automation Design and Management (ADM), and now Sistemos Group, over the past 3 years.  I have genuinely enjoyed supporting an organisation that has such a significant impact on the lives of those you serve.  I would like to express particular thanks to the Board, especially in addressing and holding in tension the potential conflicts of interest that our relationship has created.

The purpose of this letter is to begin discussion around resolving potential future conflicts of interest and providing a clear, mutually beneficial and formal arrangement between LDS and Sistemos Group around how the Rostering and Client Management applications will be developed and implemented into the future.

To support this discussion a brief history of each application development is below.

1. **RosterNow.**
   1. **Rostering Phase 1.**

* Commenced: May 2013
* Scope: Customised Roster System to match the business requirements and replace spreadsheet based system.
* Cost: $6,120.00 ex GST. (Fully Paid)
* Engagement Type: Fixed Cost
* Forecast Hours: 136
* Rate: $45 per hour (less than 50% of our standard commercial rate at the time).
* Expected Duration: 3 months.
* Status: Complete
  1. **Rostering Phase 2.**
* Commenced: May 2015
* Scope: Additional functionality to support LDS business requirements and improve the Phase 1 product.
* Cost: $5,200.00 ex GST. (Partially Paid)
* Engagement Type: Initial offer was Time and Materials, LDS required Fixed Cost.
* Forecast Hours: 80
* Rate: $65 per hour (less than 50% of our standard commercial rate at the time).
* Expected Duration: 6 months.
* Status: Incomplete
  1. **Commentary.**

As you can deduct from the above, this project has well and truly exceeded the expected duration for the following reasons:

* Underestimation by Sistemos on the complexity of the application and LDS actual business requirements.
* Parallel implementation of the new system alongside maintenance of the old spreadsheet system
* The application is based on 4 weekly roster cycles and hence addressing software defects has taken on a 4 weekly cycle of fix and retest in production.
* LDS were in a period of significant growth during the first two years of the development and resources were stretched in focusing on completing the application.
* LDS made several major changes to the configuration of the system data structures as it resolved its internal business processes related to Rostering.  This is still an issue which has been raised with LDS management on many occasions and will mean another major restructure of system data will be required to accommodate individualised funding arrangements required by the NDIS.
* Business processes have not been defined and Sistemos on several occasions has had to facilitate the discussion and resolution of these processes, such as the costing model recently introduced as part of phase 2 works.
* Sistemos nett financial benefit was minimal due to the fixed price arrangement.

Phase 2 works are now nearing completion.   Sistemos is awaiting feedback and action from Darren Anderson re reporting requirements and Sandy Harrison re workstation software upgrades to enable the final items to be completed.

As a cost metric for market comparison, LDS has expended $11,320.00 over three years to have a fully customised and supported application built for the business.  This equates to around $ 72 per week.

* 1. **IP and future development and ownership.**

The initial verbal agreement was based on LDS fully owing all rights to the application.  It was envisioned that LDS and Sistemos would seek further commercial opportunities with LDS on selling the product and contracting Sistemos to configure, install and support the application for additional customers.

Given the time it has taken to complete the application no additional commercial opportunities have been seriously pursued.

Sistemos is open to revise this arrangement should LDS not have the commercial appetite to commit to the ongoing marketing and sales of the system as agreed.

In this case Sistemos are open to accepting ownership of the application based on the following terms:

* An agreed premium on each future sale is paid to LDS from Sistemos.
* LDS will not pay any ongoing licence fees.
* LDS will get free and unlimited access to the application, upgrades and patches for the next 10 years.
* LDS will pay commercial rates for any specific support required by the business.
* Should LDS require a Service Level Agreement to be put in place to guarantee support response, Sistemos will charge a yearly support cost to be agreed.

Should there be no change in the arrangement, Sistemos would seek to discuss ongoing support arrangements, service level agreements and costs thereof at the completion of the Phase 2 works.

1. **Client Management System Prototype.**
   1. **Prototype Development.**

* Initial Proposal: January 2014
* Proposal Updated Post Scope Clarification: April 2014
* MOU Agreed: April 2014
* Letter of Intent (to complete development) was issued to LDS to meeting funding arrangements: May 2015.
* Scope: Client management web and mobile based application development.
* Cost: $19,680.00 ex GST. (Fully Paid)
* Engagement Type: Fixed Cost
* Forecast Hours: 424 (260 hours funded by Sistemos).
* Rate: $120 per hour.
* Expected Duration: 3 months.
* Status: In Progress.
  1. **Current Status.**
* Process and Data Modelling is complete.
* Database design and construction is complete.
* Web based portal development is 75% complete and forecast to be ready for limited LDS deployment around August 16.
* Mobile Application will be completed once initial Web based portal deployment is complete.
  1. **Commentary.**

Again, as you can deduct from the above, this project has exceeded the expected duration for the following reasons:

* Resource limitations within Sistemos.
* Initial prototype technical approach reviewed and changed requiring major system rework.
* Direction from LDS that the finalisation of the Roster application was to be prioritised as per agreement with the Senior Management team on 16/2/16.

Sistemos originally forecast effort of around 424 hours for the development of this application.  This included 260 hours which ADM have internally funded with the remainder being funded by LDS.

Going forward LDS will contribute the test environment including staff to validate the operation of the prototype. ADM will fund development effort to achieve the successful deployment of the prototype within LDS.

* 1. **IP and future development and ownership.**

The current agreement as per the proposal and MOU, is:

* 50/50- split ownership of the IP and the application.
* LDS will not be charged for any further development, licencing or maintenance costs.
* Sistemos and LDS will profit share 50/50 on any future profits related to the CMS application.

Under this agreement LDS are expected to operate as a commercial partner and participate in the high level management and sales effort for the product.

Sistemos is willing to renegotiate this agreement should it no longer suit LDS’s strategic or commercial direction, including either Sistemos exiting the agreement and LDS taking up full ownership or visa versa.

As mentioned at the beginning of this letter, the information contained is meant to act as a basis to clarify, agree and if necessary change the current agreements.

I look forward to further discussion.

Yours sincerely,

John Lenigas

Director, Sistemos Group