



FreeHand

FreeHand Systems, Inc.

95 First Street, Suite 200
Los Altos, CA 94022
Phone: 650-941-0742, Fax: 650-941-0207

Dear Shareholders

I am pleased to have the audit of our fiscal 2006 and 2005 financial statements completed. Of course, our objective is to complete future audits in a timely manner, so I plan to be writing you again sometime in June upon completion of our March 31, 2007 year end audit.

The financial statements for the year ended March 31, 2006 report a net loss of \$8.1 million for fiscal 2006 compared to net loss of \$9.5 million in fiscal 2005. Cash used in operations was \$3.2 million in fiscal 2006 and \$3.1 million in fiscal 2005. Cash provided by financing activities was \$3.4 million in fiscal 2006 and \$3.2 million in fiscal 2005.

At March 31, 2006, we had cash and cash equivalents of \$57,000, restricted cash of \$300,000, accumulated losses of \$29.3 million, a working capital deficiency of \$15.4 million and a stockholders' deficit of \$14.2 million. Unaudited billings for the nine month period ended December 31, 2006 were approximately \$700 thousand. The Company expects net loss for the year ending March 31, 2007 to be approximately \$11 million and cash used in operations to be approximately \$6 million.

Subsequent to March 31, 2006 through February 2, 2007, FreeHand sold stock and warrants in a series of private placements for net proceeds totaling \$6.1 million. Also during this period holders of \$11.7 million of previously outstanding debt converted that debt into common stock. At December 31, 2006 unaudited pro-forma giving effect to \$3 million warrant conversion from Vision in February 2007, FreeHand had total assets of \$5.5 million, a working capital deficiency of \$1.8 million, and a shareholders' deficiency of \$.6 million; a clear improvement from March 2006.

Sales are expected to be flat to down for fiscal 2007 due to the lack of working capital for most of the fiscal year, resulting in low inventory levels. The Company anticipates that sales will increase significantly in fiscal 2008. Considering the lead time for manufacturing MusicPads and the recent investment, the Company believes it will have sufficient inventory to meet demand in fiscal 2008.

In the meantime, notwithstanding the lack of working capital and inventory, our focus has been on strengthening distribution for the MusicPad, adding and training five new sales associates, and developing a low-priced "music reader" that would provide easy access to FreehandMusic.com sheet music for beginner music education and is to be distributed through "Big Box" retailers.

In addition we have strengthened our finance team and our outside advisors, including our relationship with Charles Koppelman, the premiere music publisher, and our engagement of Baker & McKenzie LLP as Company general counsel.

Clearly the past two years and the 2007 fiscal year have been challenging for us. We consider these years as building block years. During this time we have accomplished the following:

- Developed MusicPad Pro®, the only integrated portable high performance digital sheet music tablet designed for music performance and unlimited storage and easy management of digital sheet music
- Acquired digital sheet music content at a fraction of the original cost to develop that content
- Acquired pitch recognition technology with the acquisition of ECS in October 2006, expanding the education market for the MusicPad
- Expanded our product distribution capability
 - Four large national US dealers
 - Over 600 retailers with 1,000 locations in the United States
 - Distribution agreements with largest musical instrument dealers in Hong Kong, Japan and China
 - Sold Pads in 16 countries and music in 33 countries
- Maintained loyal long-term high profile users of the MusicPad like Sting, Herbie Hancock and David Bowie's Mike Garson
- Developed new high profile users of our products, including:
 - Elton John's Red Piano Band
 - Billy Joel's keyboardist, David Rosenthal
 - U2's Keyboardist, Terry Lawless
 - Several members of the band for Josh Groban's World Tour
 - The Police Reunion Tour
 - The Tonight Show's Bass Player

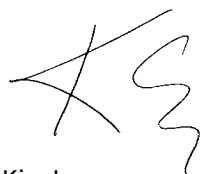
- Established exclusive licensing agreement with People's Music Publishing, the State owned music publisher in China to distribute western sheet music in China and Chinese sheet music throughout the world
- Signed licensing agreements with Sony and BMG that give FreeHand digital sheet music rights to over 400,000 additional titles of some of the most popular music in the world
- Established our website www.freehandmusic.com with over 90,000 titles of digital sheet music available for download
- Completed preliminary integration of our MusicPad software into a product line of a major keyboard manufacturer in Japan
- Improved our process of putting music on the website, reducing cost by 80%
- Leveraged close relationships with our manufacturers to reduce manufacturing costs allowing us to reduce the MusicPad Pro MSRP 25% from \$1,199 to \$899
- Initiated plans for a mass market version of MusicPad Pro
- Kept all but a handful of our 33 dedicated and talented employees
- Established a loyal group of customers who give input and product sales referrals

All of this development effort was costly and fund raising was difficult, especially because our infrastructure could not produce audited financial statements in a timely manner. However, we have survived and accomplished great things while doing so. We believe our efforts to strengthen our finance team will allow us to be prepared to complete our annual audit for fiscal 2007 in a timely manner. In addition to executing our operations plan every day, our near term plans include filing a registration statement with the SEC coincident with the completion of our fiscal 2007 audit in June 2007, applying to become a reporting "Bulletin Board" company upon the effectiveness of that registration statement and raising additional capital to fund our anticipated growth.

We believe that our efforts have positioned FreeHand to benefit from the transition of sheet music into digital formats and display. We look for fiscal 2008 (April 2007 to March 2008) to be the year we begin seeing the fruits of our efforts in increased product sales and digital sheet music downloads.

I express my heartfelt thanks to each of you for your investment and your patience and to our employees and advisors who have kept faith and literally burned the midnight oil to get us here. We have many challenges ahead, but are committed to realize our vision of FreeHand as the dominant force in digital sheet music.

Sincerely,



Kim Lorz
Chairman of the Board and Chief Executive Officer

March 16, 2007

FreeHand's stock trades on the pink sheets and there is a limited market for their shares and substantial risks. This letter contains forward-looking information within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including statements regarding potential sales, the success of the company's business, as well as statements that include the word "believe" or similar expressions. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of FreeHand Systems International, Inc. to differ materially from those implied or expressed by such forward-looking statements. This letter speaks as of the date set forth above and FreeHand Systems International, Inc. assumes no responsibility to update the information included herein for events occurring after the date hereof. Actual results could differ materially from those anticipated due to factors such as the lack of capital, timely development of products, inability to deliver products when ordered, inability of potential customers to pay for ordered products, and political and economic risks inherent in international trade.

Nothing herein shall constitute an offer to sell or the solicitation of any offers to purchase any of the Company's securities. Any such sale must be made pursuant to an effective registration statement or an exemption from registration under the Securities Act of 1933, as amended.