



**ARBORTEXT, INC.**

Consolidated Financial Statements

December 31, 2000 and 1999

(With Independent Auditors' Report Thereon)

ARBORTEXT, INC.

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Suite 1200  
150 West Jefferson  
Detroit, MI 48226-4429

## Independent Auditors' Report

The Board of Directors and Shareholders  
Arbortext, Inc.:

We have audited the accompanying consolidated balance sheets of Arbortext, Inc. and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, shareholders' equity (deficit) and comprehensive income (loss), and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Arbortext, Inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 12 to the consolidated financial statements, the Company has suffered recurring losses from operations and has a working capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

KPMG LLP

February 28, 2001



ARBORTEXT, INC.

Consolidated Balance Sheets

December 31, 2000 and 1999

Assets	2000	1999
Current assets:		
Cash and cash equivalents	\$ 488,077	4,636,392
Accounts receivable, net of allowance for doubtful accounts (note 3)	6,029,762	3,441,906
Prepaid expenses and deposits	442,639	463,785
Total current assets	<u>6,960,478</u>	<u>8,542,083</u>
Equipment and furniture, net (note 4)	2,454,100	2,926,510
Notes receivable	9,852	12,857
Other	45,149	—
Total assets	<u>\$ 9,469,579</u>	<u>11,481,450</u>
<b>Liabilities and Shareholders' Equity (Deficit)</b>		
Current liabilities:		
Bank line of credit (note 5)	\$ 330,449	1,065,000
Current installments of long-term debt (note 5)	1,475,739	2,378,632
Current installments of obligations under capital leases (note 6)	143,682	133,596
Accounts payable	899,160	317,890
Accrued expenses and taxes	1,731,145	1,870,975
Deferred revenues	3,826,374	3,230,905
Total current liabilities	<u>8,406,549</u>	<u>8,996,998</u>
Noncurrent liabilities:		
Deferred revenues	198,300	367,517
Long-term debt, excluding current installments (note 5)	450,080	1,898,947
Obligations under capital leases, excluding current installments (note 6)	87,054	230,735
Total liabilities	<u>9,141,983</u>	<u>11,494,197</u>
Shareholders' equity (deficit):		
Redeemable preferred stock (note 8):		
Preferred stock, Series A convertible, \$0.0001 par value; authorized 2,099,999 shares; issued and outstanding 2,099,999 shares	6,255,038	6,255,038
Preferred stock, Series B convertible, \$0.0001 par value; authorized 5,798,991 shares; issued and outstanding 5,457,260 shares in 2000 and 3,625,378 shares in 1999	17,827,959	11,889,991
Common stock, \$0.0001 par value; authorized 24,000,000 shares; issued and outstanding 4,263,997 shares in 2000 and 4,092,296 shares in 1999 (note 7)	426	409
Additional paid-in capital	1,021,151	826,220
Accumulated deficit	(24,699,432)	(18,866,740)
Accumulated other comprehensive income	50,054	9,935
Treasury stock, 2,224,000 common shares held at cost	(127,600)	(127,600)
Total shareholders' equity (deficit)	<u>327,596</u>	<u>(12,747)</u>
Commitments and contingencies (notes 6 and 10)		
Total liabilities and shareholders' equity (deficit)	<u>\$ 9,469,579</u>	<u>11,481,450</u>

See accompanying notes to consolidated financial statements.

ARBORTEXT, INC.

Consolidated Statements of Operations

Years ended December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Net revenues:		
Licenses	\$ 9,076,309	8,522,340
Maintenance	6,001,764	4,483,318
Services	4,101,801	3,238,213
Total net revenues	<u>19,179,874</u>	<u>16,243,871</u>
Cost of revenues:		
Licenses	813,965	937,022
Maintenance	536,977	777,621
Services	3,751,140	3,068,212
Total cost of revenues	<u>5,102,082</u>	<u>4,782,855</u>
Gross profit	<u>14,077,792</u>	<u>11,461,016</u>
Operating expenses:		
Sales and marketing	11,965,873	10,047,726
Research and development	5,648,199	6,561,808
General and administrative	1,522,139	3,054,492
Total expenses	<u>19,136,211</u>	<u>19,664,026</u>
Operating loss	(5,058,419)	(8,203,010)
Interest and other income (expense), net	<u>(774,273)</u>	<u>(442,174)</u>
Loss before income taxes	(5,832,692)	(8,645,184)
Income tax expense (note 9)	<u>—</u>	<u>1,073,500</u>
Net loss	<u>\$ (5,832,692)</u>	<u>(9,718,684)</u>

See accompanying notes to consolidated financial statements.



**ARBORTEXT, INC.**

Consolidated Financial Statements

December 31, 2001 and 2000

(With Independent Auditors' Report Thereon)

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KPMG LLP

March 1, 2002





ARBORTEXT, INC.

Consolidated Balance Sheets

December 31, 2001 and 2000

Assets	2001	2000
Current assets:		
Cash and cash equivalents	\$ 756,521	488,077
Accounts receivable, net of allowance for doubtful accounts (note 3)	5,814,565	6,029,762
Prepaid expenses and deposits	601,552	442,639
Total current assets	<u>7,172,638</u>	<u>6,960,478</u>
Equipment and furniture, net (note 4)	1,784,849	2,454,100
Notes receivable	6,975	9,852
Other	146,871	45,149
Total assets	<u>\$ 9,111,333</u>	<u>9,469,579</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank line of credit (note 5)	\$ 976,730	330,449
Current installments of long-term debt (note 5)	476,953	1,475,739
Current installments of obligations under capital leases (note 6)	87,054	143,682
Accounts payable	656,880	899,160
Accrued expenses and taxes	1,999,011	1,731,145
Deferred revenues	3,764,325	3,826,374
Total current liabilities	<u>7,960,953</u>	<u>8,406,549</u>
Noncurrent liabilities:		
Deferred revenues	19,379	198,300
Long-term debt, excluding current installments (note 5)	—	450,080
Obligations under capital leases, excluding current installments (note 6)	—	87,054
Total liabilities	<u>7,980,332</u>	<u>9,141,983</u>
Shareholders' equity:		
Redeemable preferred stock (note 8):		
Preferred stock, Series A convertible, \$0.0001 par value; authorized, issued, and outstanding 2,099,999 shares	6,255,038	6,255,038
Preferred stock, Series B convertible, \$0.0001 par value; authorized 5,813,991 shares; issued and outstanding 5,457,260 shares	17,827,959	17,827,959
Preferred stock, Series C convertible, \$0.0001 par value; authorized 7,400,000 shares; issued and outstanding 5,441,881 shares	9,335,552	—
Preferred stock, Series C-1 convertible, \$0.0001 par value; authorized 7,400,000 shares; issued and outstanding 0 shares	—	—
Common stock, \$0.0001 par value; authorized 31,000,000 shares; issued and outstanding 4,323,128 shares in 2001 and 4,263,997 shares in 2000 (note 7)	432	426
Additional paid-in capital	1,231,189	1,021,151
Accumulated deficit	(33,433,768)	(24,699,432)
Accumulated other comprehensive income	42,199	50,054
Treasury stock, 2,224,000 common shares held at cost	(127,600)	(127,600)
Total shareholders' equity	<u>1,131,001</u>	<u>327,596</u>
Commitments and contingencies (notes 6 and 10)		
Total liabilities and shareholders' equity	<u>\$ 9,111,333</u>	<u>9,469,579</u>

See accompanying notes to consolidated financial statements.

ARBORTEXT, INC.

Consolidated Statements of Operations

Years ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Net revenues:		
Licenses	\$ 7,622,686	9,076,309
Maintenance	6,779,481	6,001,764
Services	<u>7,411,873</u>	<u>4,101,801</u>
Total net revenues	<u>21,814,040</u>	<u>19,179,874</u>
Cost of revenues	<u>7,524,678</u>	<u>5,102,082</u>
Gross profit	14,289,362	14,077,792
Operating expenses:		
Sales and marketing	13,724,909	11,965,873
Research and development	6,312,619	5,648,199
General and administrative	<u>2,524,481</u>	<u>1,522,139</u>
Total expenses	<u>22,562,009</u>	<u>19,136,211</u>
Operating loss	(8,272,647)	(5,058,419)
Interest and other income (expense), net	<u>(399,344)</u>	<u>(774,273)</u>
Loss before income taxes	(8,671,991)	(5,832,692)
Income tax expense (note 9)	<u>62,345</u>	<u>—</u>
Net loss	<u>\$ (8,734,336)</u>	<u>(5,832,692)</u>

See accompanying notes to consolidated financial statements.



**ARBORTEXT, INC. AND SUBSIDIARIES**

Consolidated Financial Statements

December 31, 2002 and 2001

(With Independent Auditors' Report Thereon)

# ARBORTEXT, INC. AND SUBSIDIARIES

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## Independent Auditors' Report

The Board of Directors and Shareholders  
Arbortext, Inc.:

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We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 audits provide a reasonable basis for our opinion.

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KPMG LLP

March 7, 2003

ARBORTEXT, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2002 and 2001

(In thousands, except share and per-share data)

Assets	2002	2001
Current assets:		
Cash and cash equivalents	\$ 3,699	757
Accounts receivable, net (note 3)	7,318	5,814
Prepaid expenses and deposits	301	601
Total current assets	<u>11,318</u>	<u>7,172</u>
Equipment and furniture, net (note 4)	811	1,785
Other	71	154
Total assets	<u>\$ 12,200</u>	<u>9,111</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank line of credit (note 5)	\$ 1,181	977
Current installments of long-term debt (note 5)	—	477
Current installments of obligations under capital leases (note 5)	—	87
Accounts payable	437	657
Accrued expenses	2,153	1,999
Deferred revenue	4,942	3,764
Total current liabilities	<u>8,713</u>	<u>7,961</u>
Noncurrent liabilities:		
Deferred revenue	491	19
Total liabilities	<u>9,204</u>	<u>7,980</u>
Shareholders' equity:		
Convertible preferred stock (note 7):		
Preferred stock, Series A convertible, \$0.0001 par value. Authorized, issued, and outstanding 2,099,999 shares	6,255	6,255
Preferred stock, Series B convertible, \$0.0001 par value. Authorized 5,813,991 shares; issued and outstanding 5,457,260 shares	17,828	17,828
Preferred stock, Series C convertible, \$0.0001 par value. Authorized 9,631,995 shares; issued and outstanding 7,733,199 shares in 2002 and 5,441,881 shares in 2001	13,290	9,336
Preferred stock, Series C-1 convertible, \$0.0001 par value. Authorized 9,631,995 shares; issued and outstanding 0 shares	—	—
Common stock, \$0.0001 par value. Authorized 40,000,000 shares; issued 4,360,491 shares in 2002 and 4,323,128 shares in 2001	1	1
Additional paid-in capital	1,248	1,230
Accumulated deficit	(35,536)	(33,434)
Accumulated other comprehensive income	38	43
Treasury stock, 2,224,000 common shares held at cost	(128)	(128)
Total shareholders' equity	<u>2,996</u>	<u>1,131</u>
Total liabilities and shareholders' equity	<u>\$ 12,200</u>	<u>9,111</u>

Accompanying notes to consolidated financial statements.

ARBORTEXT, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 2002 and 2001

(In thousands)

	<u>2002</u>	<u>2001</u>
Revenue:		
Software licenses	\$ 9,145	7,623
Software maintenance	7,090	6,779
Professional services	6,098	7,412
Total revenue	<u>22,333</u>	<u>21,814</u>
Cost of revenue	<u>6,960</u>	<u>8,423</u>
Gross profit	<u>15,373</u>	<u>13,391</u>
Operating expenses:		
Sales and marketing	10,069	13,725
Research and development	5,238	5,414
General and administrative	1,965	2,524
Total operating expenses	<u>17,272</u>	<u>21,663</u>
Operating loss	(1,899)	(8,272)
Other expense, net	<u>(81)</u>	<u>(400)</u>
Loss before income taxes	(1,980)	(8,672)
Income tax expense (note 6)	<u>122</u>	<u>62</u>
Net loss	<u>\$ (2,102)</u>	<u>(8,734)</u>

See accompanying notes to consolidated financial statements.



**ARBORTEXT, INC. AND SUBSIDIARIES**

Consolidated Financial Statements

December 31, 2003 and 2002

(With Independent Auditors' Report Thereon)



ARBORTEXT, INC. AND SUBSIDIARIES

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KPMG LLP

February 23, 2004



**ARBORTEXT, INC. AND SUBSIDIARIES**

Consolidated Balance Sheets

December 31, 2003 and 2002

(In thousands, except share and per-share data)

Assets	2003	2002
Current assets:		
Cash and cash equivalents	\$ 9,371	3,699
Accounts receivable, net (note 3)	6,304	7,318
Prepaid expenses and deposits	542	301
Total current assets	16,217	11,318
Equipment and furniture, net (note 4)	716	811
Other	36	71
Total assets	\$ 16,969	12,200
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank line of credit (note 5)	\$ —	1,181
Accounts payable	903	437
Accrued expenses	2,257	2,153
Deferred revenue	6,249	4,942
Total current liabilities	9,409	8,713
Noncurrent liabilities:		
Deferred revenue	607	491
Total liabilities	10,016	9,204
Shareholders' equity:		
Convertible preferred stock (note 7):		
Preferred stock, Series A convertible, \$0.0001 par value. Authorized, issued, and outstanding 2,099,999 shares	6,255	6,255
Preferred stock, Series B convertible, \$0.0001 par value. Authorized 5,813,991 shares; issued and outstanding 5,457,260 shares	17,828	17,828
Preferred stock, Series C convertible, \$0.0001 par value. Authorized 8,199,922 shares; issued and outstanding 7,733,199 shares	13,290	13,290
Preferred stock, Series C-1 convertible, \$0.0001 par value. Authorized 8,199,922 shares; issued and outstanding 0 shares	—	—
Preferred stock, Series C-2 convertible, \$0.0001 par value. Authorized 4,375,000 shares; issued and outstanding 2,375,000 shares in 2003 and 0 shares in 2002	4,695	—
Preferred stock, Series C-3 convertible, \$0.0001 par value. Authorized 4,375,000 shares; issued and outstanding 0 shares	—	—
Common stock, \$0.0001 par value. Authorized 43,950,242 shares; issued 4,556,719 shares in 2003 and 4,360,491 shares in 2002	1	1
Additional paid-in capital	1,329	1,248
Accumulated deficit	(36,329)	(35,536)
Accumulated other comprehensive income	12	38
Treasury stock, 2,224,000 common shares held at cost	(128)	(128)
Total shareholders' equity	6,953	2,996
Total liabilities and shareholders' equity	\$ 16,969	12,200

See accompanying notes to consolidated financial statements.

**ARBORTEXT, INC. AND SUBSIDIARIES**

Consolidated Statements of Operations

Years ended December 31, 2003 and 2002

(In thousands)

	<u>2003</u>	<u>2002</u>
Revenue:		
Software licenses	\$ 8,724	9,145
Software maintenance	8,431	7,090
Professional services	<u>6,928</u>	<u>6,404</u>
Total revenue	24,083	22,639
Cost of revenue	<u>6,793</u>	<u>7,266</u>
Gross profit	<u>17,290</u>	<u>15,373</u>
Operating expenses:		
Sales and marketing	10,657	10,069
Research and development	5,574	5,238
General and administrative	<u>2,064</u>	<u>1,965</u>
Total operating expenses	<u>18,295</u>	<u>17,272</u>
Operating loss	(1,005)	(1,899)
Other income (expense), net	<u>290</u>	<u>(81)</u>
Loss before income taxes	(715)	(1,980)
Income tax expense (note 6)	<u>78</u>	<u>122</u>
Net loss	<u><u>\$ (793)</u></u>	<u><u>(2,102)</u></u>

See accompanying notes to consolidated financial statements.