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Allen Systems Group, Inc. and Subsidiaries

Consolidated Financial Statements
For the Years Ended December 31, 2001 and 2000

Allen Systems Group, Inc. and Subsidiaries

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Report of Independent Certified Public Accountants

To the Sole Director
Allen Systems Group, Inc. and Subsidiaries
Naples, Florida

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in stockholder's deficit and comprehensive loss and cash flows present fairly, in all material respects, the financial position of Allen Systems Group and its Subsidiaries ("the Company") at December 31, 2001 and December 31, 2000, 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. 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 audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Atlanta, Georgia
March 22, 2002, except for the last
paragraph of Note 7 and the second
paragraph of Note 14, as to which
the date is July 25, 2002

Allen Systems Group, Inc. and Subsidiaries

Consolidated Balance Sheets
For the Years Ended December 31, 2001 and 2000

	2001	2000
Assets		
Current assets:		
Cash and cash equivalents	$ 2,214,113	$ 2,335,863
Accounts receivable, net of allowances of $1,541,689 in 2001 and $1,461,175 in 2000	18,930,972	25,930,343
Prepaid expenses and other assets	5,139,215	9,355,193
Total current assets	26,284,300	37,621,399
Property and equipment, net	6,689,953	6,027,941
Intangible assets, net	83,756,667	104,022,317
Other assets	2,263,126	3,243,464
Total assets	$ 118,994,046	$ 150,915,121
Liabilities and stockholder's deficit		
Current liabilities:		
Accounts payable	$ 1,391,807	$ 7,935,084
Capital leases	230,487	7,549,917
Royalties and commissions payable	1,269,776	4,499,603
Accrued expenses and other	17,592,712	17,641,015
Deferred revenue	31,310,556	33,887,202
Total current liabilities	51,795,338	71,512,821
Long-term debt and capital leases	85,000,000	92,574,504
Deferred obligation	4,368,632	-
Deferred income tax liability	-	1,506,000
Total non-current liabilities	89,368,632	94,080,504
Total liabilities	141,163,970	165,593,325
Commitments and contingencies (Notes 3, 10, 12 and 13)		
Stockholder's deficit:		
Common stock, no par value, authorized 1,000 shares, issued and outstanding 200 shares	-	-
Additional paid-in capital	102,000	102,000
Accumulated deficit	(22,017,812)	(14,145,673)
Accumulated other comprehensive loss	(254,112)	(634,531)
Total stockholder's deficit	(22,169,924)	(14,678,204)
Total liabilities and stockholder's deficit	$ 118,994,046	$ 150,915,121

The accompanying notes are an integral part of these financial statements.

Allen Systems Group, Inc. and Subsidiaries

Consolidated Statements of Operations
For the Years Ended December 31, 2001 and 2000

	2001	2000
Revenues:		
License fees	$ 38,977,881	$ 41,093,216
Maintenance	82,860,460	44,017,468
Professional service revenue	5,661,995	6,499,970
Total revenues	127,500,336	91,610,654
Cost of revenues (including amortization of $27,834,000 in 2001 and $16,978,000 in 2000)	41,946,581	31,098,912
Gross margin	85,553,755	60,511,742
Operating expenses:		
General and administrative	45,838,875	45,094,457
Research and development	16,676,839	12,611,562
Sales and marketing	13,864,319	10,033,612
Depreciation and amortization	4,017,321	3,898,421
Total operating expenses	80,397,354	71,638,052
Operating income (loss)	5,156,401	(11,126,310)
Nonoperating income (expense):		
Interest expense	(8,252,102)	(7,039,342)
Interest income	336,961	80,656
Loss on foreign currency exchange	(230,502)	(607,756)
Other	126,358	506,317
Total nonoperating expenses	(8,019,285)	(7,060,125)
Loss before income taxes	(2,862,884)	(18,186,435)
Provision for income taxes	2,044,790	5,360,000
Net loss	$ (4,907,674)	$ (23,546,435)

The accompanying notes are an integral part of these financial statements.

Allen Systems Group, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholder's Deficit and Comprehensive Loss
For the Years Ended December 31, 2001 and 2000

	Common Stock		Additional Paid in Capital	Comprehensive Loss	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total
	Shares	Amount					
Balances at January 1, 2000	200	$ -	$ 102,000		$ 11,713,567	$ (355,631)	$ 11,459,936
Comprehensive income:							
Net loss	-	-	-	$ (23,546,435)	(23,546,435)	-	(23,546,435)
Foreign currency translation adjustment	-	-	-	(278,900)	-	(278,900)	(278,900)
				$ (23,825,335)			
Distributions to stockholder	-	-	-		(2,312,805)	-	(2,312,805)
Balances at December 31, 2000	200	$ -	$ 102,000		$ (14,145,673)	$ (634,531)	$ (14,678,204)
Comprehensive income:							
Net loss	-	-	-	$ (4,907,674)	(4,907,674)	-	(4,907,674)
Foreign currency translation adjustment	-	-	-	380,419	-	380,419	380,419
				$ (4,527,255)			
Distributions to stockholder	-	-	-		(2,964,465)	-	(2,964,465)
Balances at December 31, 2001	200	$ -	$ 102,000		$ (22,017,812)	$ (254,112)	$ (22,169,924)

The accompanying notes are an integral part of these financial statements.

Allen Systems Group, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2001 and 2000

	2001	2000
Cash flows from operating activities:		
Net loss	$ (4,907,674)	$ (23,546,435)
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for bad debts	258,012	44,289
Depreciation	2,350,682	2,928,552
Amortization	29,500,928	17,947,869
Deferred taxes	(257,000)	1,667,000
Deferred obligations	7,368,632	-
Foreign currency loss	230,502	607,756
Changes in assets and liabilities, net of effects of acquisitions:		
(Increase) decrease in:		
Accounts receivable	6,741,359	(4,808,716)
Prepaid expenses and other assets	4,074,161	(3,567,150)
Other assets	(10,457,122)	(2,708,185)
Increase (decrease) in:		
Accounts payable	(5,440,200)	5,094,637
Royalties and commissions payable	(3,229,827)	2,538,603
Accrued expenses and other	(3,048,303)	3,324,607
Deferred revenue	(2,576,646)	5,935,454
Net cash provided by operating activities	20,607,504	5,458,281
Cash flows from investing activities:		
Purchase of property and equipment	(2,750,929)	(1,761,248)
Acquisition of businesses, net of cash received	-	(77,449,437)
Net cash used in investing activities	(2,750,929)	(79,210,685)
Cash flows from financing activities:		
Repayments under line of credit	-	(9,716)
Proceeds from long-term debt	-	100,000,000
Principal payments of long-term debt	(15,000,000)	(22,983,125)
Payments on lease obligations	(163,777)	(386,974)
Distributions to stockholder	(2,964,465)	(2,312,805)
Net cash (used in) provided by financing activities	(18,128,242)	74,307,380
Effect of exchange rate changes on cash and cash equivalents	149,917	(328,856)
Net (decrease) increase in cash and cash equivalents	(121,750)	226,120
Cash and cash equivalents at beginning of period	2,335,863	2,109,743
Cash and cash equivalents at end of period	$ 2,214,113	$ 2,335,863
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	$ 7,631,043	$ 5,832,998
Cash paid during the year for taxes	$ 1,950,754	$ 1,266,000

Noncash investing and financing activities:

During 2001 and 2000, the Company financed certain capital expenditures totaling $335,616 and $33,055, respectively, by entering into capital lease obligations.

The accompanying notes are an integral part of these financial statements.

1. Nature of Business and Significant Accounting Policies

Nature of Business

Allen Systems Group, Inc. and Subsidiaries (the Company) is a computer software company that acquires, develops, and licenses its software products primarily for the mainframe marketplace. The Company sells its software products primarily in the United States of America and Western Europe.

Significant Accounting Policies

Basis of Presentation

These consolidated financial statements include the financial results of the Company and its wholly owned subsidiaries, Viasoft, LLC and Viasoft International, LLC. All significant intercompany transactions and balances have been eliminated in consolidation.

Revenue Recognition

The Company's revenue is derived primarily from two sources: (i) software license fees, derived primarily from software licenses to end users, and (ii) software maintenance renewal fees, derived primarily from providing support and maintenance. The Company also provides education and consulting services to end users.

Revenue from software licenses is recognized in accordance with Statement of Position 97-2, *Software Revenue Recognition*. License revenue is recognized upon delivery to the customer, provided that persuasive evidence of delivery of an arrangement exists, no significant obligations remain with regard to installation or implementation, fees are fixed and determinable, and collectibility is probable.

For arrangements containing multiple elements, such as software license fees, consulting services and maintenance, and where vendor-specific objective evidence ("VSOE") of fair value exists for all undelivered elements, revenue is recognized in accordance with the "residual method" prescribed by SOP 98-9, "Modifications of 97-2, *Software Revenue Recognition*, With Respect to Certain Transactions".

In addition, the Company generates revenue from consulting fees for implementation, installation and training related to the use of Company's proprietary and third party licensed products. The Company recognizes revenues for these services as they are performed, as they are contracted for on a time and material basis.

Recurring software maintenance revenue is typically based on one-year renewable contracts. Software maintenance and support revenues are recognized ratably over the contract period.

Beginning in 2001, the Company began executing software license arrangements that include contractual provisions that, among other things, allow customers to receive unspecified future software products. Under those arrangements, the Company recognizes revenue attributable to the software products ratably over the term of the license arrangement commencing upon delivery of the currently available software products.

Cost of revenues consists primarily of royalties, distributor fees, commissions expense and amortization of capitalized acquired software.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment is recorded at cost, less accumulated depreciation and amortization. Expenditures for renewals and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Depreciation expense is provided using the straight-line method over the estimated useful lives of the assets, which ranges from five to ten years. Leasehold improvements are amortized using the straight-line method over the lesser of the lease term or the estimated useful life. Equipment held under capital lease is recorded at the lower of the fair market value of the lease or the present value of future minimum lease payments. These leased assets are amortized using the straight-line method over the lesser of the lease term or the estimated useful life. The original cost and accumulated depreciation of assets disposed are charged to operations in the period of disposal.

Software Development Costs

Software development costs are expensed as incurred until technological feasibility has been established, at which time such costs are capitalized until the product is available for general release to customers. To date, the establishment of technological feasibility of the Company's products and general release of such software has substantially coincided. As a result, internally developed software development costs qualifying for capitalization have been insignificant and therefore, have not been capitalized. Acquired software costs are capitalized.

Intangible Assets

The costs of capitalized acquired software, goodwill, copyrights, covenants not to compete, trademarks and other intangibles are being amortized on the straight-line method over their respective useful lives (generally two to eight years).

Impairment of Long-Lived Assets

The Company reviews the carrying value of all long-lived assets, including property and equipment, capitalized acquired software, and other intangible assets whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable through an estimate of future undiscounted cash flows. The original cost and accumulated depreciation of assets identified as impaired are charged to operations in the period of identification of impairment.

Deferred Obligation

Deferred obligation represents a guarantee by the shareholder in relation to an acquisition that closed in fiscal 2000. Current portion of shareholder guarantees are included in Accrued expenses and other liabilities on the Consolidated Balance Sheets at December 31, 2001 and totaled approximately $3.0 million.

Foreign Currency Translation

The financial position and results of operations of the Company's foreign divisions are measured using local currency as the functional currency. Current assets and liabilities of these divisions are translated to the U.S. dollar at the exchange rate in effect at year-end. Income statement accounts are translated at the average rate of exchange prevailing during the year. Translation adjustments arising from differences in exchange rates from period to period are recorded as a component of stockholder's deficit designated as "accumulated other comprehensive loss." Realized gains and losses resulting from foreign currency transactions are included in the Consolidated Statement of Operations.

Income Taxes

The Company elected to have its income taxed under Section 1362 of the Internal Revenue Code and a similar section of the Florida income tax law (S Corporation election). These laws provide that, in lieu of corporate income taxes, the Company's taxable income will be passed through to the stockholder of the Company and taxed at the individual level.
The Company's subsidiary, Viasoft, Inc. was a C Corporation through June 30, 2001 and was subject to federal and state income taxes. Viasoft, Inc. was converted to a limited liability corporation effective July 1, 2001. Viasoft, LLC's foreign operations are subject to taxation in those jurisdictions. In addition, the Company is subject to income taxes in jurisdictions where the S Corporation election is not recognized. The Company has applied the asset and liability approach of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, for financial accounting and reporting purposes. The Company accounts for certain items of income and expense in different periods for financial reporting and income tax purposes. Provisions for deferred income taxes are made in recognition of such temporary differences, where applicable. A valuation allowance is established against deferred tax assets, if any, unless the Company believes it is more likely than not that the benefit will be realized.

Advertising Expense

The costs incurred for advertising and promotions are expensed when incurred. Included in selling, general and administrative expenses was advertising expense of approximately $1,322,000 and $986,000 for the years ended December 31, 2001 and 2000, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates used by management in the preparation of the Company's financial statements include estimates related to allowance for bad debts, sales discounts related to software renewal licenses, depreciation lives for fixed assets, income taxes, certain accrued liabilities and remaining economic lives of capitalized acquired software. Actual results could differ from estimates.

Concentrations of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of trade accounts receivable. To minimize risk, ongoing credit evaluations of customers' financial condition are performed, although collateral is generally not required.

Reclassification

Certain amounts in the 2000 financial statements have been reclassified to conform to the 2001 presentation.

2. **New Accounting Pronouncements**

In June 30, 2001 the Financial Accounting Standards Board ("FASB") issued SFAS 141, *Business Combinations,* which addresses the accounting and reporting for business combinations, and SFAS 142, *Goodwill and Other Intangible Assets,* which addresses the accounting and reporting for acquired goodwill and other intangible assets. SFAS 141 and 142 are effective January 1, 2002 for the Company. The Company is in the process of reviewing the provisions of SFAS 141 and 142 and does not anticipate adoption to have a material impact on the Company's financial condition or its results of operations.

In October 2001, the FASB issued SFAS 144, *Accounting for the Impairment of Long-Lived Assets,* which superceded SFAS 121 *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.* SFAS 144 addresses the accounting and reporting for the impairment or disposal of long-lived assets, including discontinued operations. SFAS 144 is effective January 1, 2002 for the Company. The Company does not believe the adoption of SFAS 141 and 142 will have a material impact on the Company's financial condition or its results of operations.

3. Acquisitions

In January 2000, the Company acquired the stock of Sisro, a software company headquartered in St. Cloud, France, for $1.8 million. The acquisition has been accounted for under the purchase method of accounting. The purchase agreement required $1.2 million in cash to be paid at closing and $600,000 to be paid in four quarterly installments commencing on March 31, 2001. The agreement also requires royalty payments of 15% of revenue generated by the Sisro products to be paid for a term of 36 months up to a maximum of approximately $5.0 million. If the maximum royalty payment is not reached in the first 36 months, the royalty payment then becomes 10% of revenue thereafter until a minimum of approximately $3.5 million has been reached. Payments made under the royalty agreement are recorded in cost of sales in the period incurred. The purchase price approximated the fair value of the acquired software products.

Also in January 2000, the Company acquired four software products and related customer relationships from a German based software company. The acquisition was accounted for under the purchase method of accounting. The purchase price for the products required no cash upon closing but a 30% royalty on all revenues associated with the four products until approximately $7.7 million has been paid. The remaining balance due under the purchase agreement of approximately $4.4 million is included in deferred obligation in the Consolidated Balance Sheet at December 31, 2001.

In May 2000, the Company paid $1.1 million to acquire all of the outstanding capital stock of Network Software Associates, Inc., a software company located in Arlington, Virginia. This acquisition was accounted for under the purchase method of accounting. The purchase agreement also requires royalty payments based on the revenue generated by the acquired products. The royalty rate is 25% until such time that total royalty payments equal $900,000, then the royalty rate decreases to 15% until the maximum of $11.4 million in total royalties are paid or for five years, whichever occurs first. If after five years, $4.9 million has not been paid in royalties, the 15% payment continues until $4.9 million has been reached. Payments made under the royalty agreement are recorded in cost of sales in the period incurred. The purchase price approximated the fair value of the acquired software products.

In May 2000, the Company acquired all of the outstanding capital stock of Viasoft, Inc at $8.40 per share for a total purchase price of $153.0 million. $76.0 million of the acquisition was financed through a revolving credit facility and the cash acquired in the transaction was used to purchase the remaining shares. The Company accounted for the acquisition using the purchase method of accounting. During 2001, the Company adjusted the amounts recorded as capitalized software costs by $5.6 million for the resolution of certain pre-acquisition contingencies.

In June 2000, the Company acquired certain software products from Interactive Software Systems, Inc., a Colorado based company, for approximately $4.3 million. The acquisition was accounted for under the purchase method of accounting. The purchase agreement requires a royalty payment of 5% paid quarterly on all collected gross revenue generated by the acquired products. This royalty will continue until royalties total $500,000, after which royalties continue at 15% until the total of all royalties paid reaches a maximum of approximately $7.7 million. Payments made under the royalty agreement are recorded in cost of sales in the period incurred. The purchase price approximated the fair value of the acquired software products.

In October 2001, the Company acquired certain software products, related contracts and customer relationships from SNMP Frameworks, Inc. ("SNMP"). The purchase agreement required $200,000 in cash to be paid at closing and $1.3 million to be paid in monthly installments of $100,000 commencing on November 31, 2001. The agreement also requires royalty payments of 25% of revenue generated by the acquired SNMP products until $4.5 million has been paid. Payments made under the royalty agreement are recorded in cost of sales in the period incurred. The purchase price approximated the fair value of the acquired software products.

In January 2001, the Company revised its presentation of the asset and related liabilities associated with an acquisition that closed in fiscal 2000. Pursuant with this revision, the Company recorded intangible assets of $6.3 million and purchased liabilities of $7.7 million in the accompanying consolidated financial statements.

The operating results of the acquisitions have been included in the Company's Consolidated Statement of Operations from their respective dates of acquisition.

4. Prepaid Expenses and Other Assets

Prepaid expenses and other assets consisted of the following at December 31:

	2001	2000
Prepaid expenses	$ 2,297,483	$ 2,151,276
Prepaid royalties	452,486	1,702,874
Notes receivable	16,049	1,065,908
Deferred maintenance costs	2,304,557	3,059,618
Deferred tax asset	-	1,249,000
Other	68,640	126,517
	$ 5,139,215	$ 9,355,193

Non-current other assets consisted of the following at December 31:

	2001	2000
Loan origination fees	$ 1,303,968	$ 2,329,136
Deposits and other	959,158	914,328
	$ 2,263,126	$ 3,243,464

5. Property and Equipment, Net

Property and equipment, less accumulated depreciation and amortization, consisted of the following at December 31:

	2001	2000
Computer equipment and software	$ 10,048,319	$ 7,953,066
Office equipment	2,521,049	2,086,591
Furniture and fixtures	1,221,444	1,005,068
Leasehold improvements	558,824	408,316
Vehicles	12,733	14,336
	14,362,369	11,467,377
Less accumulated depreciation and amortization	(7,672,416)	(5,439,436)
	$ 6,689,953	$ 6,027,941

Depreciation expense related to property and equipment was approximately $2,351,000 and $2,928,000 at December 31, 2001 and 2000, respectively.

The Company leases certain equipment under agreements that are classified as capital leases. As of December 31, 2001 and 2000, accumulated amortization related to these capital leases included in accumulated depreciation was approximately $591,000 and $434,000, respectively.

6. Intangible Assets, Net

Intangible assets, less accumulated amortization, consisted of the following at December 31:

	2001	2000
Capitalized acquired software	$ 139,932,526	$ 130,702,405
Other intangibles	4,857,469	4,857,469
	144,789,995	135,559,874
Less accumulated amortization	(61,033,328)	(31,537,557)
	$ 83,756,667	$ 104,022,317

Amortization expense was approximately $29,501,000 and $17,948,000 for the years ended December 31, 2001 and 2000, respectively, of which $27,834,000 and $16,978,000, respectively, are included in cost of sales.

7. Long-Term Debt and Capital Leases

Long-term debt and capital leases consisted of the following at December 31:

	2001	2000
Revolving credit note, $100.0 million maximum, due on April 26, 2003, collateralized by the assets of the Company. Interest rate was 5.2% at December 31, 2001 (9.4% at December 31, 2000).	$ 85,000,000	$ 100,000,000
Various capital lease obligations, interest ranging from 8.6% to 16.3%, collateralized by leased equipment, monthly or quarterly payments through 2002.	230,487	124,421
	85,230,487	100,124,421
Less current maturities	(230,487)	(7,549,917)
	$ 85,000,000	$ 92,574,504

During 2000, the Company entered into a $100.0 million revolving credit facility (the "Credit Facility"). The Credit Facility is collateralized by the assets of the Company. It has a three year maturity with mandatory quarterly commitment reductions of $2.5 million commencing on June 30, 2001, and increasing to $5.0 million on June 30, 2002. The Credit Facility terminates on April 26, 2003. Mandatory prepayments are required upon the occurrence of certain events including, but not limited to (i) the sale of assets of the Company in excess of $250,000, and (ii) any net proceeds from the issuance of equity or debt by the Company. The Company has the option to pay interest on the Credit Facility under two methods, the Base Rate or the Eurodollar Rate. The Base Rate is composed of the greater of the Federal Funds rate plus .50 basis points or the prime rate of LaSalle National Bank plus a base rate margin of 100 to 150 basis points, based on the Company's debt to EBITDA ratio. The Eurodollar Rate is the London Interbank Offered Rate plus 225 to 275 basis points, depending on the Company's debt to EBITDA ratio. Amounts not used under the Credit Facility are subject to a commitment fee of .375% to .5% depending on the Company's debt to EBITDA ratio. Under the terms of the Credit Facility, the Company is required to comply with certain covenants, including the maintenance of certain financial ratios. The Company has obtained waivers relating to the financial and non-financial covenants, which were not met during 2000 and during 2001.

On September 6, 2001, the Company amended its Credit Facility with its lending institutions. The amendment changed the interest rates charged under the Credit Facility, effective subsequent to June 30, 2001, as follows: the Base Rate is composed of the greater of the Fed Funds rate plus 50 basis points or the prime rate of LaSalle National Bank plus a margin of 125 to 225 basis points (5.2% at December 31, 2001), dependent on the Company's debt to EBITDA, as defined, ratio. The Eurodollar Rate is the London Interbank Offered Rate plus 250 to 350 basis points, depending on the Company's debt EBITDA ratio. Amounts not used under the Credit Facility are subject to a commitment fee of 0.375% to 0.75%, depending on the Company's debt to EBITDA ratio. The amendment also altered the requirement of certain financial covenants, including the maintenance of various ratios. At December 31, 2001 financial covenants included a minimum consolidated net worth based on a formula, minimum EBITDA, a maximum total debt to EBITDA ratio of 3.5 and a minimum fixed charge coverage of 1.25.

On July 25, 2002, the Company repaid in full and terminated the existing Credit Facility with proceeds from a Loan and Security Agreement due July 25, 2005 (see Note 14 – Subsequent Event). Accordingly, the Company has recorded the outstanding loan balance as long-term debt at December 31, 2001.

8. Income Taxes

The provision for income taxes consisted of the following for the years ended December 31:

	2001	2000
Current:		
Federal	$ 25,000	$ 1,675,000
Foreign	2,019,790	3,658,000
State		335,000
Deferred		(308,000)
	$ 2,044,790	$ 5,360,000

Allen Systems Group operates as an S-Corporation. As such this entity is not subject to federal income tax. Allen Systems Group has subsidiaries and branch offices in various tax jurisdictions throughout the world. During the years ending December 31, 2001 and 2000, the provision for income taxes was primarily impacted by income generated in these foreign jurisdictions. During the year ended December 31, 2000 federal income taxes were impacted by taxable income generated by Viasoft, Inc. a subsidiary acquired in June 2000. Effective June 30, 2001, Viasoft, Inc. was converted into a limited liability company after which date it is no longer subject to federal income tax.

On June 30, 2001, Viasoft, Inc. was converted to a limited liability company. Pursuant to the requirements of SFAS 109, this change in tax status from a taxable to a non-taxable entity, requires the elimination of the deferred tax balances attributable to this entity as of the date of change. Accordingly, as of June 30, 2001, the deferred tax asset and liability balances were attributed to the operations of Viasoft, Inc. and have been eliminated.

9. Savings Plan

The Company offers a defined contribution savings plan (the "Plan") under Section 401(k) of the Internal Revenue Code for all eligible employees. The Plan allows employees to defer up to $11,000 of their gross earnings on a pre-tax basis through contributions to the Plan. In accordance with the provisions of the Plan, the Company is required to match 50% of employee contributions up to the first 6% of the employees' gross pay. The Company recorded expense for the matching contributions of approximately $1,162,000 and $201,000 for the years ended December 31, 2001 and 2000, respectively.

10. Related Party Transactions

In February 1998, the Company signed a 10-year operating lease with its sole stockholder for its general offices. Monthly lease payments were approximately $108,000 for each of the years ended December 31, 2001 and 2000. The lease also provides for the Company to be responsible for all expenses relating to the leased space, including taxes, utilities and maintenance.

The Company uses product escrowing services from an entity in which the sole stockholder of the Company owns an interest. The expense for these services was approximately $58,000 and $46,500 for the years ended December 31, 2001 and 2000, respectively.

11. Operating Leases

The Company leases office space and equipment under operating leases expiring in various years through 2008. Rental expense under operating leases was approximately $7,121,000 and $5,600,000 for the years ended December 31, 2001 and 2000, respectively.

Future minimum lease payments under non-cancelable operating leases as of December 31, 2001 and the years ended December 31, 2002 through December 30, 2008 are as follows:

		Unrelated Parties	
December 31,	Related Party	U.S. Lease Obligations	Foreign Lease Obligations
2002	$ 1,290,000	$ 3,859,257	$ 1,802,578
2003	1,290,000	3,290,901	1,445,026
2004	1,290,000	2,273,252	1,299,031
2005	1,290,000	2,069,947	1,122,210
2006	1,290,000	813,426	646,673
Thereafter	1,398,000	296,769	514,063
	$ 7,848,000	$ 12,603,552	$ 6,829,581

12. Computer Software Sales Agreements

The Company has entered into various software marketing agreements. The agreements require the payment of royalties based upon percentages of future sales. In the event that the royalties are not paid from software sales proceeds during the life of the marketing agreements, the Company may be required to pay the royalties from sources other than sales proceeds. However, in the opinion of management, future sales of these software products are expected to liquidate all amounts due.

In June 2001, the Company entered into a $1.3 million settlement agreement on an existing royalty agreement, which has been allocated to capitalized software and is being amortized over two years. At December 31, 2001, $0.7 million remains payable under the terms of the royalty settlement agreement. Also during 2000, the Company settled an existing royalty agreement through seven equal payments from September 2000 through March 2001 of approximately $1.7 million. This amount has been allocated to capitalized acquired software and is being amortized over approximately two years.

13. Contingencies

The Company is a defendant in various legal matters arising in the ordinary course of business. Although the outcome of these matters cannot be predicted with certainty, in management's opinion, sufficient amounts have been accrued to cover the estimated costs to defend these matters.

14. Subsequent Events

On February 19, 2002, the Company acquired all of the 12.5 million issued and outstanding shares of Landmark Systems Corporation ("Landmark") common stock, of which 5.5 million shares were held by two officers of the Landmark, for $4.75 per share in cash and deferred payments totaling approximately $59.3 million. In addition, the Company acquired all outstanding Landmark options and warrants for $1.9 million. As a result of the transaction, the Company acquired the Landmark product line of Performance Management tools, which help organizations manage their information technology systems and solve real systems management problems. The acquisition will be accounted for under the purchase method of accounting.