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Allen Systems Group, Inc.

Report on Audits of Financial Statements
For the Years Ended December 31, 1998 and 1997

RE-SUBMITTED ACCOUNTS

Allen Systems Group, Inc.

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PRICEWATERHOUSECOOPERS

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Report of Independent Certified Public Accountants

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

In our opinion, the accompanying balance sheets and the related statements of operations, changes in stockholder's equity and comprehensive income and cash flows present fairly, in all material respects, the financial position of Allen Systems Group, Inc. ("the Company") at December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the years then ended, in conformity with generally accepted accounting principles. 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 generally accepted auditing standards 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 the opinion expressed above.

PricewaterhouseCoopers LLP

April 13, 1999

Allen Systems Group, Inc.
Balance Sheets
December 31, 1998 and 1997

	1998	1997
Assets		
Current assets:		
Cash and cash equivalents	$ 821,769	$ 2,794,639
Accounts receivable, less allowance for doubtful accounts of $197,273 in 1998 and $80,600 in 1997	7,060,528	2,910,927
Prepaid expenses and other receivable	566,915	274,538
Advances	345,761	1,019,339
Total current assets	8,794,973	6,999,443
Property and equipment, net	4,074,791	3,383,414
Capitalized software costs, net	15,827,360	2,983,356
Other assets	1,536,275	775,052
Total assets	$ 30,233,399	$ 14,141,265
Liabilities and stockholder's equity		
Current liabilities:		
Accounts payable	$ 1,323,877	$ 565,789
Current maturities of long-term debt and capital leases	5,852,883	1,461,104
Royalties payable	493,663	346,383
Commissions payable	234,417	141,334
Accrued expenses and other	1,145,663	938,650
Deferred revenue	1,124,833	1,156,341
Total current liabilities	10,175,336	4,609,601
Long-term debt and capital leases	10,540,124	1,614,573
Commitments and contingent liabilities (Notes 8 and 9)		
Stockholder's equity:		
Common stock, no par value, authorized 1,000 shares, issued and outstanding 200 shares	-	-
Additional paid in capital	102,000	102,000
Retained earnings	9,521,615	7,856,193
Accumulated other comprehensive loss	(105,676)	(41,102)
Total stockholder's equity	9,517,939	7,917,091
Total liabilities and stockholder's equity	$ 30,233,399	$ 14,141,265

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

Allen Systems Group, Inc.
Statements of Operations
For the Years Ended December 31, 1998 and 1997

	1998	1997
Revenues:		
License fees	$ 11,656,024	$ 10,016,238
License renewal fees	19,395,492	15,239,815
Other	864,805	533,041
Total revenues	31,916,321	25,789,094
Sales returns and allowances	(163,000)	(52,126)
Total net revenues	31,753,321	25,736,968
Cost of revenues	5,316,282	4,276,824
Gross margin	26,437,039	21,460,144
Operating expenses:		
Selling, general and administrative	20,431,230	14,611,422
Bonus expense	194,482	633,680
Depreciation and amortization	923,186	621,717
Total operating expenses	21,548,898	15,866,819
Operating income	4,888,141	5,593,325
Nonoperating income (expense):		
Interest expense	(708,694)	(278,944)
Interest income	72,927	93,978
Loss on foreign currency exchange	(51,199)	(19,747)
Other	165,832	188,418
Total nonoperating expense	(521,134)	(16,295)
Net income	$ 4,367,007	$ 5,577,030

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

Allen Systems Group, Inc.
Statements of Changes in Stockholder's Equity and Comprehensive Income
For the Years Ended December 31, 1998 and 1997

	Common Stock		Additional Paid in Capital	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income (Loss)
	Shares	Amount				
Balances at January 1, 1997	200	$ -	$ 102,000	$ -	$ 4,543,907	$ 45,426
Comprehensive income:						
Net income	-	-	-	5,577,030	5,577,030	-
Foreign currency translation adjustment	-	-	-	(86,528)	-	(86,528)
				5,490,502		
Distributions to stockholder	-	-	-	-	(2,264,744)	-
Balances at December 31, 1997	200	-	102,000		7,856,193	(41,102)
Comprehensive income:						
Net income	-	-	-	4,367,007	4,367,007	-
Foreign currency translation adjustment	-	-	-	(64,574)	-	(64,574)
				4,302,433		
Distributions to stockholder	-	-	-	-	(2,701,585)	-
Balances at December 31, 1998	200	$ -	$ 102,000		$ 9,521,615	$ (105,676)

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

Allen Systems Group, Inc.
Statements of Cash Flows
For the Years Ended December 31, 1998 and 1997

	1998	1997
Cash flows from operating activities:		
Net income	$ 4,367,007	$ 5,577,030
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on disposal of fixed assets	34,914	35,385
Loss on disposal of capitalized software	-	7,069
Depreciation	609,621	396,069
Amortization	2,836,405	1,226,498
Foreign currency loss	51,199	19,747
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(3,739,777)	(266,033)
Prepaid expenses and other receivables	(285,608)	23,521
Advances	(91,808)	(134,077)
Other assets	(620,823)	(24,690)
Increase (decrease) in:		
Accounts payable	162,085	293,080
Royalties payable	111,280	27,443
Commissions payable	82,375	(18,459)
Accrued expenses and other	(486,156)	401,244
Deferred revenue	(1,014,174)	226,030
Net cash provided by operating activities	2,016,540	7,789,857
Cash flows from investing activities:		
Purchase of property and equipment	(951,303)	(1,426,602)
Acquisition of businesses, net of cash received	(4,251,474)	-
Proceeds from sale of property and equipment	28,548	18,050
Purchase of computer software	(8,992,765)	(241,333)
Net cash used in investing activities	(14,166,994)	(1,649,885)
Cash flows from financing activities:		
Proceeds from line-of-credit agreement	2,081,081	-
Proceeds from long-term debt	17,763,612	-
Principal payments of long-term debt	(6,420,027)	(1,293,090)
Payments on lease obligations	(429,724)	(251,431)
Distributions to stockholder	(2,701,585)	(2,264,744)
Net cash provided by (used in) financing activities	10,293,357	(3,809,265)
Effect of exchange rate changes on cash	(115,773)	(106,275)
Net (decrease) increase in cash	(1,972,870)	2,224,432
Cash and cash equivalents at beginning of year	2,794,639	570,207
Cash and cash equivalents at end of year	$ 821,769	$ 2,794,639
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 680,272	$ 279,335

Noncash investing and financing activities:

During 1998 and 1997, the Company financed certain capital expenditures of approximately $271,000 and $755,000, respectively, through the issuance of capital lease obligations

During 1998, the Company had acquisitions of software of $525,000 included in accounts payable and reclassed $765,386 from advances to capitalized software

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. (the Company) is a computer software company that acquires, develops, and markets software products for the IBM mainframe marketplace.

Significant Accounting Policies

Revenue Recognition

Beginning January 1, 1998, the Company adopted Statement of Position 97-2, "Software Revenue Recognition," (SOP 97-2) issued by the American Institute of Certified Public Accountants, which supercedes the Statement of Position 91-1, "Software Revenue Recognition." SOP 97-2 which provides guidance for the recognition of revenue for sales of computer software. Under 97-2, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is determinable and collectibility is probable. Adoption of SOP 97-2 had minimal impact on the Company's revenue recognition policy. Under the provisions of SOP 97-2, the Company recognizes revenue from software license fees upon the delivery and acceptance of the programs by the customer. Annual license renewal fees are recognized as revenue upon acceptance of the new program user password by the customer. Revenue from profession consulting services are recognized as they are provided.

Cash and Cash Equivalents

For purposes of the statement of cash flows, 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. Depreciation of property and equipment has been computed using the straight-line method over the estimated useful lives of the assets. Upon sale or retirement of property and equipment, the cost and related accumulated depreciation is removed from the accounts and the difference between the carrying value and any proceeds realized on disposition is charged or credited to income. Maintenance and repairs are expensed as incurred, while renewals and betterments are capitalized.

Capitalized Software Costs

The costs to acquire licenses or ownership of certain computer software products are being amortized using the straight-line method over the estimated economic lives of the products, normally five years. The Company assesses the carrying value of its capitalized software annually in order to determine whether an impairment has occurred, taking into account both historical and forecasted cash flows.

1. Nature of Business and Significant Accounting Policies, continued

Purchased Software Rights

Certain provisions of the acquisition agreements require royalty payments when the Company collects revenue from licensing the products to its customers or through license renewal fees. These royalty payments are included in cost of revenues.

Software costs are shown net of accumulated amortization of $8,072,253 and $5,549,413 at December 31, 1998 and 1997, respectively. Amortization expense charged to cost of sales was $2,522,840 and $1,000,850 for the years ended December 31, 1998 and 1997, respectively.

Intangible Assets

The costs of copyrights, covenants not to compete, trademarks and other intangibles are being amortized on the straight-line method over their respective useful lives (two to eight years). Goodwill is being amortized on the straight-line method over ten years. The Company assesses the carrying value of its intangible assets annually in order to determine whether an impairment has occurred. An impairment loss is recognized if the expected cash flows of the asset is less than its carrying value. Copyrights, trademark and other intangibles are shown net of accumulated amortization of $966,840 and $653,275 at December 31, 1998 and 1997, respectively. Amortization expense charged to operations was $313,565 and $225,648 for the years ended December 31, 1998 and 1997, respectively.

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 in the component of stockholder's equity designated as "accumulated other comprehensive income." Realized gains and losses resulting from foreign currency transactions are included in 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.

1. Nature of Business and Significant Accounting Policies, continued

Advertising Expense

The costs incurred for advertising and promotion are expensed when incurred. Included in selling, general and administrative expenses were advertising expense of $240,941 and $145,625 for 1998 and 1997, respectively.

Management's 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 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, depreciation lives for fixed assets and remaining economic life of capitalized software costs. Actual results could differ from estimates.

Concentrations of Credit Risk

Statement of Financial Accounting Standards No. 105 requires disclosure about financial instruments with off-balance-sheet risk and about concentrations of credit risk for all financial instruments. Financial instruments, which potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents. The Company places its cash and cash equivalents in high credit quality financial institutions.

Reclassification

Certain amounts in the 1997 financial statements have been reclassified to conform with the 1998 presentation. These reclassifications have no effect on the total assets, shareholder's equity, net income or total cash flows previously reported by the Company.

2. Acquisitions

In February 1998, the Company paid approximately $2.7 million using the proceeds of notes from financial institutions, for all of the stock and software rights to the DK2 product of a company located in France. The acquisition has been accounted for under the purchase method of accounting. The purchase agreement requires quarterly payments of 15% of the aggregate sales generated from software procured in the acquisition, net of distribution fees, over the next three years or for such longer period until a minimum payment of approximately $2.2 million is satisfied. The agreement also requires additional contingent considerations based on 1998 sales to existing customers. Sales to existing customers during 1998 did not meet the minimum amount to require payment. The payments and contingent consideration is not included in the acquisition cost and will be recorded as royalty expense in future periods when the revenue requirements have been met. The purchase price approximated the fair value of the net assets acquired, consisting primarily of capitalized software costs.

2. Acquisitions, continued

In June 1998, the Company paid approximately $2 million for all of the stock of a software company located in California. The acquisition has been accounted for under the purchase method of accounting. In addition, the purchase agreement requires quarterly payments of 15% of the product revenue generated over the next four years or for such a longer period until a minimum payment of approximately $2.6 million is satisfied. The contingent consideration is not included in the acquisition cost and will be recorded as a royalty expense in the future periods when the revenue requirements have been met. The purchase price approximated fair value of the net assets acquired, consisting primarily of capitalized software costs, net of assumed liabilities.

In July 1998, the Company paid approximately $500,000 in cash for certain software from a company in Pennsylvania. The acquisition was accounted for under the purchase method of accounting. The purchase price approximated the fair value of the assets acquired. In addition, the purchase agreement requires quarterly payments of 15% of the product revenue generated over the next three years.

In August 1998, the Company paid approximately $8.7 million, primarily for capitalized software costs, of a company in the Netherlands. The acquisition was accounted for under the purchase method of accounting. In addition, the purchase agreement requires payments, up to $3.0 million, over the next three years of 10% of the product revenue generated excluding professional services. The purchase price approximated the fair value of the assets acquired.

3. Advances

The Company has entered into various agreements relating to the prepayment of developer royalties, commissions and other employee advances. Advances consisted of the following at December 31:

	1998	1997
Royalties	$ 246,563	$ 943,760
Commissions	89,280	60,996
Other	9,918	14,583
	$ 345,761	$ 1,019,339

4. Property and Equipment

Property and equipment consisted of the following at December 31:

	1998	1997
Computer equipment	$ 3,307,950	$ 2,622,447
Computer equipment under capital leases	657,341	657,341
Office equipment	500,482	562,923
Office equipment under capital leases	608,164	305,981
Furniture and fixtures	686,699	563,851
Leasehold improvements	196,843	89,668
Vehicles	11,102	11,102
	5,968,581	4,813,313
Less accumulated depreciation	(1,893,790)	(1,429,899)
	$ 4,074,791	$ 3,383,414

Depreciation and amortization expense related to property and equipment was $609,621 and $396,069 at December 31, 1998 and 1997, respectively.

The Company leases certain equipment under agreements that are classified as capital leases. As of December 31, 1998 and 1997, accumulated amortization related to these capital leases included in accumulated depreciation was $260,992 and $121,515, respectively.

5. Other Assets

Other assets consisted of the following at December 31:

	1998	1997
Notes receivable	$ 25,000	$ 25,000
Copyrights and trademark, net	260,667	444,667
Other intangibles, net	952,493	130,771
Deposits and other	298,115	174,614
	$ 1,536,275	$ 775,052

6. Long-Term Debt and Capital Leases

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

	1998	1997
Revolving credit note, $2.5 million maximum, due on demand, collateralized by the assets of the Company and guaranteed by the stockholder. Interest payable monthly at the lesser of prime rate minus .75% or LIBOR plus 2% (7.06% at December 31, 1998).	$ 2,081,081	$ -
Three notes to financial institution, $15 million maximum, collateralized by the assets of the Company and guaranteed by the stockholder, total monthly payments of $370,000, including interest at lesser of prime rate minus 1% or LIBOR plus 1.75% (6.75% at December 31, 1998). Final payments due May 31, 2002 through August 15, 2002.	13,763,014	-
Note payable to financial institution, monthly payments of FF 10,810 (approximately $1,931 at December 31, 1998) including interest at 6.25%. Final payment due May 2000.	36,522	-
Note payable to financial institution, collateralized by accounts receivable and certain computer software programs and guaranteed by stockholder, monthly payments of $33,333 plus interest at prime rate.	-	700,000
Note payable to corporation, collateralized by software product, monthly payments of $10,000, non-interest bearing (interest imputed at 10%).		48,774
Notes payable to corporation, uncollateralized, non-interest bearing, payable quarterly through January 1999.	-	38,284
Note payable to financial institution, collateralized by accounts receivable, contract rights and certain computer software programs. The loan is guaranteed by stockholder and collateralized by a mortgage on certain real property owned by the stockholder. Monthly payments are $51,041 plus interest at prime rate.	-	1,582,292
Note payable to corporation, collateralized by software product, non-interest bearing (interest imputed at 10%). Payment of $35,000 due April 1998.	-	35,000
Various capital lease obligations, interest ranging from 6.54% to 9.95%, collateralized by leased equipment, monthly or quarterly payments through March 2001	512,390	671,327
	$ 16,393,007	$ 3,075,677

6. Long-Term Debt and Capital Leases, continued

During 1998, the Company entered into three notes totaling approximately $15 million and a $2.5 million revolving credit note, all with the same financial institution. Covenants of the notes and revolving credit note outstanding at December 31, 1998 require the Company to maintain specified levels of net worth and financial ratios, which were satisfied. The Company received a waiver relating to the requirement for provision of audited financial statements to the financial institution within 120 days of year end.

The Company maintained a $1.0 million line of credit collateralized by accounts receivable and certain computer software programs and guaranteed by the sole stockholder. Interest was at prime rate. The maximum amount available under this facility at December 31, 1997 was $1.0 million. There were no amounts outstanding at December 31, 1997. The $1.0 million line of credit was replaced during 1998 by the aforementioned $2.5 million revolving credit note.

The scheduled maturities of long-term debt and capital lease obligations at December 31, 1998 are approximately as follows:

1999	$ 5,852,883
2000	4,105,406
2001	4,174,469
2002	2,260,249
	16,393,007
Less current maturities	(5,852,883)
	$ 10,540,124

7. Savings Plan

Effective January 1, 1994, the Company established a defined contribution savings plan (Plan) under Section 401(k) of the Internal Revenue Code for all eligible employees. The Plan allows employees to defer up to 15% of their gross earnings on a pretax basis through contributions to the Plan. In accordance with the provisions of the Plan, the Company is required to match 25% of employee contributions up to the first 6% of the employees' gross pay. The Company recorded expense for the matching contributions of $65,830 and $54,914 for the years ended December 31, 1998 and 1997, respectively.

8. 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 are approximately $91,000 for the first year, increasing incrementally each year thereafter. The lease also provides for the Company to be responsible for all expenses relating to the lease space, including taxes, utilities and maintenance.

8. Related Party Transactions, continued

Prior to February 1998, the Company leased space for its general offices from its sole stockholder. The lease was classified as an operating lease and provided for monthly lease payments of $12,720 through December 1997. Total payments made under this lease arrangement were approximately $153,000 for the year ended December 31, 1997. The Company also reimbursed the sole stockholder for cleaning and taxes relating to the office. Payments were approximately $32,000 for the year ended December 31, 1997.

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 $42,000 for the years ended December 31, 1998 and 1997.

9. Operating Leases

The Company leases office space and equipment under operating leases expiring in various years through 1999. Rental expense under operating leases was approximately $2,232,465 and $1,675,839 for the years ended December 31, 1998 and 1997, respectively.

Future minimum lease payments under non-cancelable operating leases having remaining terms in excess of one year as of December 31, 1998 for their remaining terms and in the aggregate are:

		Unrelated Parties	
Year Ending December 31,	Related Party	U.S. Lease Obligations	Foreign Lease Obligations
1999	$ 1,225,841	$ 604,240	$ 340,501
2000	1,290,359	549,456	342,717
2001	1,290,359	552,192	342,717
2002	1,290,359	555,036	302,506
2003	1,290,359	557,988	302,506
Thereafter	5,268,967	-	1,339,321
	$ 11,656,244	$ 2,818,912	$ 2,970,268

10. 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.