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SOFTWARE, INC.

SUMMARY COMMENTS

FINANCIAL STATEMENTS FOR JUNE 2004

Operating highlights

1. Sales in June were a record $825,000.
2. We earned $341,000 in June, and were profitable for the quarter.
3. Sales productivity year-to-date is 8% above Plan.
4. We signed 6 new name accounts: Allmerica, Saint-Gobain, Xerox, BTU, UST and Pro M.
5. The trade show was a success – we gave 26 demos, got 100+ leads and have arranged to visit 17 of the companies in July and August.
6. Development of version 5.0 has been delayed until September, and the Internet version is planned for October.
7. We have accrued $17,000 for the Johnson severance costs.

Income statement

Net income, $341,000, is $31,000 better than Plan ($310,000).

Revenues. Revenues, at $825,000, were $59,000 above Plan. We closed 6 new name accounts, including one international (Saint-Gobain). Both domestic and international license revenues were above Plan, while service revenues (consulting, training and consulting) were all slightly below Plan.

Cost of sales and operating expenses, $482,000, were $30,000 worse than Plan due principally to higher than planned salaries and recruiting costs.

Staffing, 42 at June 30, is 3 over Plan, reflecting 5 hires in the month (2 US sales, 1 support and 2 developers).

Cash flow statement

Cash, $204,000 at June 30, was $89,000 higher than Plan.

Operating cash flow was $59,000 better than Plan, due to aggressive receivable collections. The days sales outstanding at June 30 was 31, compared to 38 per Plan.

Investing cash flow, $58,000, represented payment for equipment.

The financing cash flow, $49,000, was $34,000 better than Plan, reflecting the capital lease financing arranged with Leaseco.

Balance sheet

Cash, $204,000, was on deposit at Silicon Valley Bank.

Accounts receivable, at $925,000, represented 31 days sales. Approximately $104,000 was 90+ days past due at June 30; Argo has committed to pay $76,000 of this to us on July 15, and we are working on the balance due from B+ SW. We expect no collection problems.

Accounts payable. There are no significant vendor issues.

Accrued liabilities includes $17,000 of cushion.

RESULTS YEAR TO DATE

Income statement.

The net loss, $78,000, is $300,000 better than Plan ($378,000), as we are spending less than Plan on marketing programs ($182,000 spent, compared to $308,000 Plan) and salaries ($1,039,000 compared to $1,180,000).

Cash flow statement.

Cash at June 30, $204,000, is $89,000 better than Plan.

FINANCIAL PROJECTIONS

This year we will earn $0.2 million on sales of $5.5 million. We will break even in Q3, and will earn $.3 million in Q4 (in other words, the projections remain hockey sticked, or skewed, toward very high performance in Q4).

Cash at December 31, will be $386,000;

- operating cash flows will be approximately break-even ($.1 million negative on collections of $4.9 million);
- we will spend $.14 million on equipment; and,
- we will generate $.05 million, net, in equipment lease financing.