
Activant Solutions Inc.
(successor by merger to Activant Solutions Holdings Inc.)

QUARTERLY REPORT
For the period ended March 31, 2006

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ACTIVANT SOLUTIONS HOLDINGS INC.
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FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements. In particular, statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance contained in this report under the headings “Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business” are forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements such as we believe that we have sufficient liquidity to fund our business operations for at least the next twelve months. We have based these forward-looking statements on our current expectations about future events. While we believe these expectations are reasonable, these forward-looking statements are inherently subject to risks and uncertainties, many of which are beyond our control. Our actual results may differ materially from those suggested by these forward-looking statements for various reasons, including those discussed in this report under the headings “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Some of the key factors that could cause actual results to differ from our expectations are:

- failure of our proprietary technology to support our customers’ future needs or it becoming obsolete;
- failure to maintain relationships with key industry participants and/or key customers and/or loss of significant customer revenues;
- intent by one of our largest customers to discontinue the use of certain of our products;
- loss of recurring subscription service revenues;
- transition of certain of our senior management personnel following the Transactions and the failure to attract, retain and integrate qualified management personnel;
- failure of our Eagle product to gain acceptance within the automotive parts aftermarket;
- failure to integrate Prophet 21, Inc. or to realize the expected benefits of our acquisition of Prophet 21, Inc.;
- changes in the manner or basis on which we receive third-party information used to maintain our electronic automotive parts and applications catalog;
- failure by certain of our existing customers to upgrade to our current generation of systems;
- failure to effectively compete;
- failure to maintain current systems sales levels of one-time sales of software licenses and hardware;
- consolidation trends among our customers and consolidation trends in the market segments in which we operate;
- failure to adequately protect our proprietary rights and intellectual property;
- claims by third parties that we are infringing on their proprietary rights or other adverse claims;
- defects or errors in our software and information services;
- interruptions of our connectivity applications;
- claims for damages against us in the event of a failure of our customers’ systems;
- prolonged unfavorable general economic and market conditions;
- our substantial indebtedness;
- certain covenants in our debt documents; and
- the other factors described under the section entitled “Risk Factors” and elsewhere in this report.

Given these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements included in this report are made only as of the date hereof. We do not undertake and specifically decline any obligation to update any such statements or to publicly announce the results of any revisions to any of such statements to reflect future events or developments.

ACTIVANT SOLUTIONS HOLDINGS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(in thousands, except share data)

	September 30, 2005	March 31, 2006 (Unaudited)
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 10,952	\$ 19,322
Trade accounts receivable, net of allowance for doubtful accounts of \$5,208 and \$5,578 at September 30, 2005 and March 31, 2006, respectively	54,013	59,800
Inventories, net	4,103	6,350
Deferred income taxes	4,832	5,106
Prepaid income taxes	361	4,450
Prepaid expenses and other current assets	<u>6,662</u>	<u>6,953</u>
Total current assets	80,923	101,981
Property and equipment, net	8,627	8,407
Capitalized computer software costs, net.....	3,865	4,018
Databases, net.....	4,975	4,901
Goodwill.....	344,863	343,999
Intangible assets, net.....	114,804	107,355
Deferred financing costs.....	13,770	14,296
Other assets.....	<u>4,490</u>	<u>4,050</u>
Total assets	<u>\$ 576,317</u>	<u>\$ 589,007</u>
LIABILITIES AND STOCKHOLDER'S DEFICIT:		
Current liabilities:		
Accounts payable.....	\$ 16,076	\$ 17,694
Payroll related accruals.....	16,261	15,326
Deferred revenue.....	34,179	34,864
Short-term debt	149	-
Accrued expenses and other current liabilities.....	<u>18,010</u>	<u>21,308</u>
Total current liabilities	84,675	89,192
Long-term debt, net of discount.....	455,328	460,456
Deferred tax liabilities	35,183	35,183
Other liabilities	<u>6,805</u>	<u>5,976</u>
Total liabilities.....	581,991	590,807
Commitments and contingencies	-	-
Stockholder's equity (deficit):		
Class A Common Stock:		
Par value \$0.000125, authorized, issued and outstanding, 25,000,000 shares at September 30, 2005 and March 31, 2006.....	3	3
Common Stock:		
Par value \$0.000125, authorized 100,000,000 shares, issued and outstanding, 19,303,332 shares at September 30, 2005 and 19,392,497 March 31, 2006.....	2	2
Additional paid-in capital	85,595	85,004
Retained deficit.....	(91,724)	(87,106)
Other accumulated comprehensive income:		
Cumulative translation adjustment	<u>450</u>	<u>297</u>
Total stockholder's deficit	<u>(5,674)</u>	<u>(1,800)</u>
Total liabilities and stockholder's deficit.....	<u>\$ 576,317</u>	<u>\$ 589,007</u>

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

ACTIVANT SOLUTIONS HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(UNAUDITED)
(in thousands)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2005	2006	2005	2006
Revenues:				
Systems	\$ 22,395	\$ 40,639	\$ 47,570	\$ 81,562
Services	<u>35,753</u>	<u>58,414</u>	<u>71,517</u>	<u>115,622</u>
Total revenues	58,148	99,053	119,087	197,184
Cost of revenues:				
Systems	13,813	22,422	28,613	43,437
Services	<u>13,919</u>	<u>22,717</u>	<u>27,891</u>	<u>44,363</u>
Total cost of revenues	<u>27,732</u>	<u>45,139</u>	<u>56,504</u>	<u>87,800</u>
Gross profit	30,416	53,914	62,583	109,384
Operating expenses:				
Sales and marketing.....	8,462	13,175	16,972	26,217
Product development	4,076	9,684	8,146	19,299
General and administrative.....	5,768	11,766	12,957	21,527
Amortization of purchased intangible assets	<u>197</u>	<u>3,725</u>	<u>394</u>	<u>7,450</u>
Total operating expenses.....	<u>18,503</u>	<u>38,350</u>	<u>38,469</u>	<u>74,493</u>
Operating income	11,913	15,564	24,114	34,891
Interest expense	(5,298)	(13,652)	(9,719)	(26,801)
Write-off of prior debt issuance costs	-	-	-	(1,535)
Other income, net	<u>115</u>	<u>386</u>	<u>563</u>	<u>1,000</u>
Income before income taxes.....	6,730	2,298	14,958	7,555
Income tax expense	<u>2,602</u>	<u>931</u>	<u>5,786</u>	<u>2,937</u>
Net income	<u>\$ 4,128</u>	<u>\$ 1,367</u>	<u>\$ 9,172</u>	<u>\$ 4,618</u>
Comprehensive income:				
Net income	\$ 4,128	\$ 1,367	\$ 9,172	\$ 4,618
Foreign currency translation adjustment	<u>(131)</u>	<u>5</u>	<u>325</u>	<u>(153)</u>
Comprehensive income	<u>\$ 3,997</u>	<u>\$ 1,372</u>	<u>\$ 9,497</u>	<u>\$ 4,465</u>

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

ACTIVANT SOLUTIONS HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

	Six Months Ended March 31,	
	2005	2006
OPERATING ACTIVITIES		
Net income	\$ 9,172	\$ 4,618
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,538	2,952
Amortization of purchased intangible assets	394	7,450
Amortization of capitalized software and database ..	3,605	2,915
Amortization of deferred issuance costs	405	1,500
Write-off of prior debt issuance costs	-	1,535
Write-off of capitalized IPO costs	-	1,776
Provision for doubtful accounts	1,247	1,338
Other, net	(219)	162
Changes in assets and liabilities:		
Trade accounts receivable	(1,779)	(7,125)
Inventories	(1,755)	(2,247)
Prepaid expenses and other assets	1,446	(6,289)
Accounts payable	(388)	1,618
Deferred revenue	960	685
Accrued expenses and other liabilities	<u>(3,622)</u>	<u>1,534</u>
Net cash provided by operating activities	12,004	12,422
INVESTING ACTIVITIES		
Purchase of property and equipment	(1,379)	(2,801)
Capitalized computer software costs and databases	(2,393)	(2,993)
Purchase of businesses, net of cash acquired	(95,813)	-
Purchase price adjustments	-	508
Equity distributions from partnerships	135	-
Proceeds from disposition of equity interest	<u>-</u>	<u>679</u>
Net cash used in investing activities	(99,450)	(4,607)
FINANCING ACTIVITIES		
Proceeds from long-term debt	120,000	185,000
Repayment of senior unsecured bridge loan	-	(180,000)
Proceeds from credit facility	-	10,000
Repayment of credit facility	-	(10,000)
Payment on long-term debt	(167)	(149)
Repurchase of common stock	-	(840)
Exercise of stock options	-	105
Debt issuance costs	<u>(6,035)</u>	<u>(3,561)</u>
Net cash provided by financing activities	113,798	555
Net change in cash and cash equivalents	26,352	8,370
Cash and cash equivalents, beginning of period	<u>32,065</u>	<u>10,952</u>
Cash and cash equivalents, end of period	<u>\$ 58,417</u>	<u>\$ 19,322</u>
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	\$ 9,147	\$ 17,829
Income taxes	\$ 4,545	\$ 8,024

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

ACTIVANT SOLUTIONS HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2006
(UNAUDITED)

1. BASIS OF PRESENTATION

Activant Solutions Inc. is the successor by merger to Activant Solutions Holdings Inc. (see Subsequent Events Note 2), and is hereby posting these condensed consolidated financial statements of Holding. The accompanying unaudited condensed consolidated financial statements of Holding have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. Generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, contingencies and results of operations. While management has based their assumptions and estimates on the facts and circumstances existing at March 31, 2006, final amounts may differ from these estimates.

In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments that are necessary for a fair presentation of the results for the interim periods presented. The results of operations for interim periods are not necessarily indicative of actual results achieved for full fiscal years.

Unless the context otherwise requires, references in this report to "we," "our," "us," "Holding" and "the company" refer to Activant Solutions Holdings Inc. and its consolidated subsidiaries.

2. SUBSEQUENT EVENTS

On March 12, 2006, Star Holding Corp., or Lone Star, Lone Star Merger Corp., or Merger Sub, and Activant Solutions Holdings Inc., or Activant Holdings, entered into an agreement and plan of merger, or the Merger Agreement, pursuant to which Merger Sub would merge with and into Holding. The merger was consummated on May 2, 2006, whereupon, Holding became wholly owned by funds affiliated with Hellman & Friedman LLC, Thoma Cressey Equity Partners, Inc. and JMI Equity and certain members of management. Following the merger, on May 2, 2006, Holding merged with and into Activant Solutions Inc., with Activant Solutions Inc. continuing as the surviving corporation and wholly-owned subsidiary of Lone Star. These mergers are referred to in this quarterly report as the "mergers" and the mergers and the transactions related to the mergers are referred to collectively in this quarterly financial report as the "transactions." The transactions closed on May 2, 2006. The transaction will be treated as a purchase and thus the assets and liabilities will be recorded at their fair as of the closing date. These financial statements do not reflect the effects of the transactions.

The mergers and related transactions were funded by a combination of approximately \$245.7 million equity contribution, \$390.0 million senior secured term loan facility and \$175.0 senior subordinated notes. The senior secured term loan facility bears interest at LIBOR plus 2.0%. The senior subordinated notes are due in 2016 and bear interest at a fixed rate of 9 ½% per annum. We also entered into a \$40.0 million senior secured revolving credit facility with a five-year maturity to replace our existing Amended and Restated Credit Agreement (defined below), which was terminated in connection with the mergers.

On March 30, 2006, we commenced tender offers for all of our outstanding 10 ½% senior notes due 2011, floating rate senior notes due 2010 and senior floating rate PIK notes due 2011 and solicitations of consents from the holders of these notes with respect to amendments to the indentures governing such notes that would eliminate substantially all of the restrictive covenants contained in such indentures and in such notes and also eliminate certain events of default, certain covenants relating to mergers and certain conditions to legal defeasance and covenant defeasance, but would not eliminate, among other things, certain repurchase obligations in respect of such notes. On April 13, 2006, we executed supplemental indentures containing the proposed amendments to the indentures for such notes, which amendments became operative immediately prior to the mergers on May 2, 2006. The tender offers closed in

conjunction with the mergers on May 2, 2006. After completion of the tender offers, \$2.0 million in aggregate principal amount of the 10½% senior notes due 2011, \$22.6 million in aggregate principal amount of the floating rate senior notes due 2010 and none of the senior floating rate PIK notes due 2011 remain outstanding. Also in connection with the completion of the mergers, we delivered an irrevocable notice of redemption with respect to the floating rate senior notes due 2010 that had not been tendered, which redemption will occur on June 1, 2006. As a result, we will expense the deferred financing costs related to the redemption of these notes in the quarter ended June 30, 2006.

On the May 2, 2006 transactions closing date, the former stockholders of Holding received \$4.00 per share for each share of common stock of Holding, and \$7.2965 per share for each share of Class A common stock of Holding. In addition, on May 2, 2006, each outstanding Holding stock option was canceled and converted into the right to receive a cash payment equal to the excess of \$4.00 over the respective exercise price per share of each option.

3. ACQUISITIONS

Acquisitions have been recorded using the purchase method of accounting, and, accordingly, the results of operations are included in our consolidated results as of the date of each acquisition. We allocate the purchase price of our acquisitions to the tangible assets, liabilities and intangible assets acquired, based on their estimated fair values. The excess purchase price over those fair values is recorded as goodwill. The goodwill recorded as a result of these acquisitions is not expected to be deductible for tax purposes.

Speedware Corporation Inc. In March and April 2005, we acquired all of the common stock of Speedware Corporation Inc. (“Speedware”). We paid \$100.8 million in cash for 100% of Speedware’s common stock. Acquired intangible assets consist primarily of customer contracts, customer lists and acquired technology with a weighted average estimated useful life of seven years. The amortization expense related to the acquired intangible assets is approximately \$4.0 million per annum.

The Systems House. In May 2005, we acquired substantially all of the assets of The Systems House, Inc. for a total purchase price of \$2.6 million. We allocated \$2.5 million of the purchase price to goodwill.

Prophet 21, Inc. In September 2005, we acquired all of the common stock of Prophet 21, Inc. (“Prophet 21”). We paid \$218.2 million in cash for 100% of Prophet 21’s common stock. During the six months ended March 31, 2006, we received and recorded \$0.5 million as a purchase price adjustment for Prophet 21. Acquired intangible assets consist primarily of customer contracts, customer lists and acquired technology with a weighted average estimated useful life of eight years. The amortization expense related to the acquired intangible assets is approximately \$9.2 million per annum.

4. DEBT

As of the dates below, our long-term debt consisted of the following:

<i>(in thousands)</i>	September 30, 2005	March 31, 2006
10 ½ % senior notes due 2011, net of discount.....	\$ 155,328	\$ 155,456
Floating rate senior notes due 2010.....	120,000	265,000
Senior unsecured bridge loan.....	180,000	-
Floating rate senior notes due 2011.....	-	40,000
Other.....	149	-
Total debt.....	455,477	460,456
Current portion.....	(149)	-
Long-term debt.....	\$ 455,328	\$ 460,456

On October 17, 2005, we completed a private placement of \$145.0 million aggregate principal amount of senior floating rate notes due 2010. The notes bear interest at LIBOR plus 6.0% and are our general, unsecured obligations, subject to the terms and conditions contained in an indenture, dated as of March 30, 2005, among us, certain of our subsidiary guarantors and Wells Fargo Bank, National Association. The proceeds of the private placement were used to repay the \$180.0 million outstanding senior unsecured bridge loan that we used to acquire Prophet 21, and to pay related transaction fees and expenses.

On October 17, 2005, we also issued \$40.0 million aggregate principal amount of senior floating rate PIK notes due 2011, or PIK Notes, pursuant to an indenture dated as of October 17, 2006, between us and Wells Fargo Bank, National Association, as trustee. The notes bear interest at a rate per annum, reset quarterly, equal to LIBOR (as defined in the PIK Notes) plus 8.50%. The covenants and events of default contained in indenture relating to the PIK Notes are substantially identical to those in the indenture relating to the 10 ½% senior notes due 2011. The proceeds of the PIK Notes were used to repay the \$180.0 million outstanding senior unsecured bridge loan that we used to acquire Prophet 21, and to pay related transaction fees and expenses.

In September 2005, we amended and restated our credit agreement and entered into a new \$20.0 million senior revolving credit facility (the "Amended and Restated Credit Agreement"). During fiscal year 2006, we borrowed and subsequently repaid \$10.0 million on the revolving credit facility. The interest rate as of March 31, 2006 was 7.25%. The terms of the Amended and Restated Credit Agreement restricted certain activities, the most significant of which include limitations on additional indebtedness, liens, guarantees, payment or declaration of dividends, sale of assets, investments, capital expenditures, and transactions with affiliates. We were also required to meet certain tests relating to financial amounts and ratios defined in the Amended and Restated Credit Agreement. As of March 31, 2006, we were in compliance with the covenants contained in the Amended and Restated Credit Agreement.

Effective October 31, 2005, we entered into a two year interest rate swap, for a notional amount of \$100 million, to achieve a more equal mix of fixed and floating rate debt. The interest rate swap effectively converts \$100 million of floating rate debt to fixed rate debt by fixing the three month London Interbank Offered Rates we pay at 4.72%. As a result of the interest rate swap, and during the two year term of the swap, the interest rate on \$100 million of our floating rate debt is effectively fixed at 10.72%. We account for the swap as a derivative financial instrument, thus the change in the fair value of the swap for the period is recorded into earnings as other income. For the six months ending March 31, 2006, we recognized a gain of \$750,000.

5. INCOME TAXES

We recorded income tax expense at an effective rate of 40.5% and 38.9% for the three and six months ended March 31, 2006, which is based on our original anticipated results for the full fiscal year. The effective rate is based upon our results and does not reflect any results related to the Transactions (see Subsequent Events Note 2).

6. COMMON STOCK OPTION PLAN

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS 123R"), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), and superseded APB Opinion No. 25, "Accounting for Stock Issued to Employees." This revised standard addresses the accounting for stock-based payment transactions in which a company receives employee services in exchange for either equity instruments of the company or liabilities that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first interim or annual period after June 15, 2005, with early adoption encouraged.

We adopted SFAS 123R in the quarter ended December 31, 2005 using the prospective method for all options granted prior to June 2, 2005, the date we filed with the SEC in preparation for the sale of equity securities in a public market. Under this transition method, awards continue to be accounted for under APB 25 until they are modified, cancelled, or settled. As a result, there is no compensation cost recognized in the income statement for these awards. For all awards granted after June 2, 2005, we used the modified prospective method. Under this transition method, compensation cost recognized in fiscal 2006 includes compensation cost for all share-based payments granted subsequent to June 2, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). Results for prior periods have not been restated. We recorded a charge of approximately \$144,000 in general and administrative operating expenses for the six months ending March 31, 2006. The total income tax benefit recognized in the income statement was approximately \$15,000.

Information on stock option activity is as follows:

	<u>Total</u>	<u>1998 Option Plan</u>		<u>2000 Option Plan</u>		<u>2001 Option Plan</u>	
	<u>Total Options</u>	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
Total options outstanding at September 30, 2005	10,819,440	1,351,700	\$ 5.00	9,241,115	\$ 1.87	226,625	\$ 1.46
Options granted	575,000	–	–	575,000	3.80	–	–
Options forfeited	(317,986)	–	–	(308,836)	1.04	(9,150)	1.29
Options exercised	(89,165)	–	–	(89,165)	1.19	–	–
Total options outstanding at March 31, 2006	<u>10,987,289</u>	<u>1,351,700</u>	<u>\$ 5.00</u>	<u>9,418,114</u>	<u>\$ 2.03</u>	<u>217,475</u>	<u>\$ 1.47</u>

The following is a summary of options outstanding as of March 31, 2006:

	<u>Range of Exercise Prices</u>	<u>Number of Shares Subject to Options Outstanding</u>	<u>Weighted- Average Remaining Contractual Life (in years)</u>	<u>Weighted- Average Exercise Price</u>
1998 Option Plan	\$ 5.00	1,351,700	2.5	\$ 5.00
2000 Option Plan	1.00 and 3.80	9,418,114	7.4	2.03
2001 Option Plan	1.00 and 2.50	217,475	5.9	1.47
Combined Option Plans	\$ 1.00 and \$5.00	10,987,289	6.7	\$ 2.38

The following is a summary of options exercisable as of March 31, 2006:

	<u>Number of Shares Subject to Options Exercisable</u>	<u>Weighted- Average Exercise Price of Options Exercisable</u>	<u>Weighted- Average Remaining Contractual Life (in years)</u>
1998 Option Plan	1,351,700	\$ 5.00	2.7
2000 Option Plan	4,622,379	1.50	5.8
2001 Option Plan	–	–	–
Combined Option Plans	5,974,079	\$ 2.29	5.0

The intrinsic value of options exercised during the first three months of fiscal year 2006 was approximately \$3,000. The weighted average estimated grant date fair value, as defined by SFAS 123R, for options granted under our three stock option plans during the first six months of fiscal year 2006 was \$2.09 per share. The fair value of each award granted from our stock option plans during the six months ended March 31, 2006 was estimated at the date of grant using the Black-Scholes option pricing model, that uses the assumptions in the following table. The expected term is based on historical data and represents the period of time that stock options granted are expected to be outstanding. Due to the lack of public company stock trading experience, the expected volatility is based on a comparable group of companies for the period. We do not intend to pay dividends on our common stock for the foreseeable future, and accordingly, use a dividend yield of zero. The risk-free rate for periods within the contractual life of the option is based on the T-Bill coupon rate for U.S Treasury securities in effect at the time of the grant with a maturity approximating the expected term. As of March 31, 2006, there was \$1.2 million of total unrecognized stock-based compensation expense. This cost is expected to be recognized over a weighted average period of four years.

Expected term.....	6.52 years
Expected volatility	50%
Expected dividends.....	0%
Risk-free rate	4.4%

7. SEGMENT REPORTING

We have organized our business around our products and services (“Segments”) as follows:

- Systems, which is comprised primarily of proprietary software applications, third-party hardware and peripherals and implementation and training;
- Product Support, which is comprised of daily operating support through our advice line, software updates, preventive and remedial on-site maintenance and depot repair services;
- Content and Data Services, which is comprised primarily of databases, exchanges and other information services, including our electronic catalog in the automotive parts aftermarket, and

- Other Services, which is comprised primarily of business products, such as forms and other paper products.

Each reportable Segment is managed separately on a revenue and gross profit basis. We do not allocate operating expenses, interest expense, other expenses or assets to each Segment, as this information is not used to measure the operating performance of the Segments. Organizationally, the functional operating areas that support all of our Segments, including systems integration, installation and training, product support, data services, product development and sales and marketing, are integrated under a common reporting and management structure to achieve operating efficiencies.

The following tables set forth, for the periods indicated, our revenues, cost of revenues, gross profit and gross profit as a percentage of revenue by Segment:

	Three Months Ended March 31,2005					Three Months Ended March 31,2006				
	Systems	Product Support	Content & Data Services	Other	Total	Systems	Product Support	Content & Data Services	Other	Total
Revenues.....	\$ 22,395	\$ 19,704	\$ 14,301	\$ 1,748	\$ 58,148	\$ 40,639	\$ 39,980	\$ 15,744	\$ 2,690	\$ 99,053
Cost of Revenues.....	13,813	8,837	3,919	1,163	27,732	22,422	16,321	4,479	1,917	45,139
Gross Profit.....	<u>\$ 8,582</u>	<u>\$ 10,867</u>	<u>\$ 10,382</u>	<u>\$ 585</u>	<u>\$ 30,416</u>	<u>\$ 18,217</u>	<u>\$ 23,659</u>	<u>\$ 11,265</u>	<u>\$ 773</u>	<u>\$ 53,914</u>
Gross Profit as a Percentage of Revenues	38.3%	55.2%	72.6%	33.5%	52.3%	44.8%	59.2%	71.6%	28.7%	54.4%

	Six Months Ended March 31,2005					Six Months Ended March 31,2006				
	Systems	Product Support	Content & Data Services	Other	Total	Systems	Product Support	Content & Data Services	Other	Total
Revenues.....	\$ 47,570	\$ 39,612	\$ 28,746	\$ 3,159	\$119,087	\$ 81,562	\$ 79,314	\$ 31,720	\$ 4,588	\$ 197,184
Cost of Revenues.....	28,613	17,986	7,815	2,090	56,504	43,437	32,290	8,849	3,224	87,800
Gross Profit.....	<u>\$ 18,957</u>	<u>\$ 21,626</u>	<u>\$ 20,931</u>	<u>\$ 1,069</u>	<u>\$ 62,583</u>	<u>\$ 38,125</u>	<u>\$ 47,024</u>	<u>\$ 22,871</u>	<u>\$ 1,364</u>	<u>\$ 109,384</u>
Gross Profit as a Percentage of Revenues	40.0%	54.6%	72.8%	33.8%	52.6%	46.7%	59.3%	72.1%	29.7%	55.5%

We derive our revenues primarily from customers that operate in three vertical markets — hardlines and lumber, wholesale distribution and the automotive parts aftermarket (“Auto”) — and from our productivity tools business.

- The hardlines and lumber vertical market consists of independent hardware retailers, home improvement centers, paint, glass and wallpaper stores, farm supply stores, retail nurseries and gardens, and independent lumber and building material yards.
- The wholesale distribution vertical market includes distributors of a range of products including electrical supply, medical supply, plumbing, heating and air conditioning, brick, stone and related materials, roofing, siding, insulation, industrial machinery and equipment, industrial supplies and service establishment equipment.
- Auto consists of businesses engaged in the manufacture, distribution, sale and installation of new and remanufactured parts used in the maintenance and repair of automobiles and light trucks.
- The productivity tools business, which primarily consists of software migration and application development tools, was acquired as a part of our acquisition of Speedware.

<i>(in thousands)</i>	<u>Three Months Ended March 31,</u>		<u>Six Months Ended March 31,</u>	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Systems Revenues:				
Hardlines and Lumber	\$ 18,059	\$ 20,410	\$ 38,942	\$ 43,234
Auto.....	3,646	4,705	7,066	8,930
Wholesale Distribution.....	690	13,225	1,562	25,631
Productivity Tools	-	2,299	-	3,767
Total Systems Revenues.....	<u>\$ 22,395</u>	<u>\$ 40,639</u>	<u>\$ 47,570</u>	<u>\$ 81,562</u>
Product Support Revenues:				
Hardlines and Lumber	\$ 10,593	\$ 16,282	\$ 20,971	\$ 31,943
Auto.....	8,705	7,493	17,804	15,353
Wholesale Distribution.....	406	14,377	837	28,308
Productivity Tools	-	1,828	-	3,710
Total Product Support Revenues	<u>\$ 19,704</u>	<u>\$ 39,980</u>	<u>\$ 39,612</u>	<u>\$ 79,314</u>
Content and Data Services Revenues:				
Hardlines and Lumber	\$ 1,411	\$ 1,405	\$ 2,662	\$ 2,864
Auto.....	12,407	12,013	25,087	24,429
Wholesale Distribution.....	483	2,326	997	4,427
Productivity Tools	-	-	-	-
Total Content and Data Services Revenues.....	<u>\$ 14,301</u>	<u>\$ 15,744</u>	<u>\$ 28,746</u>	<u>\$ 31,720</u>
Other Revenues:				
Hardlines and Lumber	\$ 1,648	\$ 2,494	\$ 2,978	\$ 4,223
Auto.....	-	151	-	280
Wholesale Distribution.....	100	45	181	85
Productivity Tools	-	-	-	-
Total Other Revenues.....	<u>\$ 1,748</u>	<u>\$ 2,690</u>	<u>\$ 3,159</u>	<u>\$ 4,588</u>
Total Revenues:				
Hardlines and Lumber	\$ 31,711	\$ 40,591	\$ 65,553	\$ 82,264
Auto.....	24,758	24,362	49,957	48,992
Wholesale Distribution.....	1,679	29,973	3,577	58,451
Productivity Tools	-	4,127	-	7,477
Total Revenues.....	<u>\$ 58,148</u>	<u>\$ 99,053</u>	<u>\$ 119,087</u>	<u>\$ 197,184</u>

Geographic segments

A breakdown by geographic area of revenues and total assets is shown below. The Americas geographic area covers the United States and Canada. The Europe geographic area covers the United Kingdom, Ireland and France.

<i>(in thousands)</i>	Three months ended March 31,	
	<u>2005</u>	<u>2006</u>
Revenues:		
Americas	\$ 56,336	\$ 97,300
Europe	<u>1,812</u>	<u>1,753</u>
Total revenues.....	<u>\$ 58,148</u>	<u>\$ 99,053</u>
	Six months ended March 31,	
	<u>2005</u>	<u>2006</u>
Revenues:		
Americas	\$ 115,539	\$ 193,748
Europe	<u>3,548</u>	<u>3,436</u>
Total revenues.....	<u>\$ 119,087</u>	<u>\$ 197,184</u>
	<u>September 30, 2005</u>	<u>March 31, 2006</u>
Assets:		
Americas	\$ 573,797	\$ 586,628
Europe	<u>2,520</u>	<u>2,379</u>
Total assets.....	<u>\$ 576,317</u>	<u>\$ 589,007</u>

8. GUARANTOR CONSOLIDATION

The Senior Notes and the Floating Rate Notes are guaranteed by our existing, wholly-owned domestic subsidiaries Triad Systems Financial Corporation, Triad Data Corporation, CCI/TRIAD Gem, Inc., Triad Systems Corporation, Speedware USA, Inc., Prelude Systems Inc., Enterprise Computing Inc., Prophet 21, Inc. Speedware Holdings, Inc., Prophet 21 Investment Corporation, Prophet 21 Canada, Inc., Prophet 21 New Jersey, Inc., SDI Merger Corporation, Distributor Information Systems Corporation, Trade Services Systems, Inc., STANPak Systems, Inc. and CCI/ARD, Inc. Our other subsidiaries (the "Non-Guarantors") are not guarantors of the Senior Notes and the Floating Rate Notes. The following tables set forth consolidating financial information of the Guarantors and Non-Guarantors for the balance sheets as of September 30, 2005 and March 31, 2006, the statements of operations for the three months and six months ended March 31, 2006 and 2005 and the statements of cash flows for the six months ended March 31, 2006 and 2005.

Condensed Consolidating Balance Sheet as of March 31, 2006

(in thousands)

	Guarantor				
	Principal Operations	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	\$ 14,039	\$ 4,346	\$ 937	\$ -	\$ 19,322
Trade accounts receivable, net of allowance for doubtful accounts ...	40,975	15,816	3,009	-	59,800
Inventories, net	5,713	599	38	-	6,350
Prepaid expenses and other current assets	<u>10,187</u>	<u>4,152</u>	<u>2,170</u>	<u>-</u>	<u>16,509</u>
Total current assets	70,914	24,913	6,154	-	101,981
Property and equipment, net	5,965	1,818	624	-	8,407
Capitalized computer software costs and databases, net	8,919	-	-	-	8,919
Goodwill	343,999	-	-	-	343,999
Intangible assets, net	103,184	-	4,171	-	107,355
Investments in subsidiaries	36,137	-	7,527	(43,664)	-
Deferred financing costs	14,296	-	-	-	14,296
Other assets	<u>3,819</u>	<u>172</u>	<u>59</u>	<u>-</u>	<u>4,050</u>
Total assets	<u>\$ 587,233</u>	<u>\$ 26,903</u>	<u>\$ 18,535</u>	<u>\$ (43,664)</u>	<u>\$ 589,007</u>
Liabilities and stockholder's equity					
Current liabilities:					
Accounts payable	\$ 12,519	\$ 4,146	\$ 1,029	\$ -	\$ 17,694
Intercompany payables (receivables)	90,968	(98,216)	7,248	-	-
Payroll related accruals	10,695	3,577	1,054	-	15,326
Deferred revenue	20,081	11,189	3,594	-	34,864
Accrued expenses and other current liabilities	<u>16,265</u>	<u>4,668</u>	<u>375</u>	<u>-</u>	<u>21,308</u>
Total current liabilities	150,528	(74,636)	13,300	-	89,192
Long-term debt, net of discount	460,456	-	-	-	460,456
Deferred tax liabilities and other liabilities	<u>33,836</u>	<u>7,786</u>	<u>(463)</u>	<u>-</u>	<u>41,159</u>
Total liabilities	644,820	(66,850)	12,837	-	590,807
Total stockholder's equity (deficit)	<u>(57,587)</u>	<u>93,753</u>	<u>5,698</u>	<u>(43,664)</u>	<u>(1,800)</u>
Total liabilities and stockholder's equity (deficit)	<u>\$ 587,233</u>	<u>\$ 26,903</u>	<u>\$ 18,535</u>	<u>\$ (43,664)</u>	<u>\$ 589,007</u>

Condensed Consolidating Balance Sheet as of September 30, 2005

(in thousands)

	Guarantor				
	Principal Operations	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents.....	\$ 5,800	\$ 3,943	\$ 1,209	\$ -	\$ 10,952
Trade accounts receivable, net of allowance for doubtful accounts....	34,299	15,321	4,393	-	54,013
Inventories, net.....	3,213	820	70	-	4,103
Prepaid expenses and other current assets	<u>6,183</u>	<u>4,136</u>	<u>1,536</u>	<u>-</u>	<u>11,855</u>
Total current assets.....	49,495	24,220	7,208	-	80,923
Property and equipment, net	5,277	2,702	648	-	8,627
Capitalized computer software costs and database, net	8,840	-	-	-	8,840
Goodwill	344,863	-	-	-	344,863
Intangible assets, net	110,218	-	4,586	-	114,804
Investments in subsidiaries	33,907	6,807	2,832	(43,546)	-
Deferred financing costs	13,770	-	-	-	13,770
Other assets	<u>4,322</u>	<u>137</u>	<u>31</u>	<u>-</u>	<u>4,490</u>
Total assets.....	<u>\$ 570,692</u>	<u>\$ 33,866</u>	<u>\$ 15,305</u>	<u>\$ (43,546)</u>	<u>\$ 576,317</u>
Liabilities and stockholder's equity					
Current liabilities:					
Accounts payable	\$ 10,299	\$ 4,790	\$ 987	\$ -	\$ 16,076
Intercompany payables (receivables).....	71,606	(73,571)	1,965	-	-
Payroll related accruals	11,222	4,071	968	-	16,261
Deferred revenue	19,734	10,552	3,893	-	34,179
Short-term debt.....	-	149	-	-	149
Accrued expenses and other current liabilities.....	<u>11,531</u>	<u>5,887</u>	<u>592</u>	<u>-</u>	<u>18,010</u>
Total current liabilities.....	124,392	(48,122)	8,405	-	84,675
Long-term debt, net of discount	455,328	-	-	-	455,328
Deferred tax liabilities and other liabilities	<u>34,091</u>	<u>8,329</u>	<u>(432)</u>	<u>-</u>	<u>41,988</u>
Total liabilities	613,811	(39,793)	7,973	-	581,991
Total stockholder's equity (deficit)	<u>(43,119)</u>	<u>73,659</u>	<u>7,332</u>	<u>(43,546)</u>	<u>(5,674)</u>
Total liabilities and stockholder's equity (deficit).....	<u>\$ 570,692</u>	<u>\$ 33,866</u>	<u>\$ 15,305</u>	<u>\$ (43,546)</u>	<u>\$ 576,317</u>

Condensed Consolidating Statement of Operations for the Three Months Ended March 31, 2006

(in thousands)

	Guarantor				
	Principal Operations	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Systems	\$ 27,301	\$ 12,786	\$ 552	\$ -	\$ 40,639
Services	38,827	15,478	4,109	-	58,414
Total revenues	66,128	28,264	4,661	-	99,053
Cost of revenues:					
Systems	16,194	5,773	455	-	22,422
Services	14,946	4,919	2,852	-	22,717
Total cost of revenues	31,140	10,692	3,307	-	45,139
Gross profit	34,988	17,572	1,354	-	53,914
Operating expenses:					
Sales and marketing	8,434	3,817	924	-	13,175
Product development	5,035	4,031	618	-	9,684
General and administrative	8,083	2,442	1,241	-	11,766
Amortization of purchased intangible assets	3,725	-	-	-	3,725
Total operating expenses	25,277	10,290	2,783	-	38,350
Operating income	9,711	7,282	(1,429)	-	15,564
Interest expense	(13,648)	(3)	(1)	-	(13,652)
Other income, net	338	14	34	-	386
Income (loss) before income taxes	(3,599)	7,293	(1,396)	-	2,298
Income tax expense	928	3	-	-	931
Net income (loss)	\$ (4,527)	\$ 7,290	\$ (1,396)	\$ -	\$ 1,367

Condensed Consolidating Statement of Operations for the Three Months Ended March 31, 2005

(in thousands)

	Guarantor				
	Principal Operations	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Systems	\$ 21,719	\$ -	\$ 676	\$ -	\$ 22,395
Services	<u>32,997</u>	<u>127</u>	<u>2,629</u>	<u>-</u>	<u>35,753</u>
Total revenues	54,716	127	3,305	-	58,148
Cost of revenues:					
Systems	13,459	-	354	-	13,813
Services	<u>12,453</u>	<u>-</u>	<u>1,466</u>	<u>-</u>	<u>13,919</u>
Total cost of revenues.....	25,912	-	1,820	-	27,732
Gross profit.....	28,804	127	1,485	-	30,416
Operating expenses:					
Sales and marketing.....	7,910	(120)	672	-	8,462
Product development.....	3,943	-	133	-	4,076
General and administrative.....	4,788	376	604	-	5,768
Amortization of purchased intangible assets.....	<u>197</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>197</u>
Total operating expenses	<u>16,838</u>	<u>256</u>	<u>1,409</u>	<u>-</u>	<u>18,503</u>
Operating income	11,966	(129)	76	-	11,913
Interest expense	(5,289)	(9)	-	-	(5,298)
Other income, net	<u>31</u>	<u>-</u>	<u>84</u>	<u>-</u>	<u>115</u>
Income (loss) before income taxes	6,708	(138)	160	-	6,730
Income tax expense	<u>2,603</u>	<u>-</u>	<u>(1)</u>	<u>-</u>	<u>2,602</u>
Net income (loss).....	<u>\$ 4,105</u>	<u>\$ (138)</u>	<u>\$ 161</u>	<u>\$ -</u>	<u>\$ 4,128</u>

Condensed Consolidating Statement of Operations for the Six Months Ended March 31, 2006

(in thousands)

	Guarantor				
	Principal Operations	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Systems	\$ 53,273	\$ 27,223	\$ 1,069	\$ (3)	\$ 81,562
Services	<u>72,469</u>	<u>34,980</u>	<u>8,173</u>	<u>-</u>	<u>115,622</u>
Total revenues	125,742	62,203	9,242	(3)	197,184
Cost of revenues:					
Systems	31,776	10,471	1,190	-	43,437
Services	<u>28,881</u>	<u>10,546</u>	<u>4,939</u>	<u>(3)</u>	<u>44,363</u>
Total cost of revenues	60,657	21,017	6,129	(3)	87,800
Gross profit	65,085	41,186	3,113	-	109,384
Operating expenses:					
Sales and marketing	17,129	7,455	1,633	-	26,217
Product development	9,839	8,292	1,168	-	19,299
General and administrative	14,149	5,033	2,345	-	21,527
Amortization of purchased intangible assets	<u>7,450</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,450</u>
Total operating expenses	<u>48,567</u>	<u>20,780</u>	<u>5,146</u>	<u>-</u>	<u>74,493</u>
Operating income	16,518	20,406	(2,033)	-	34,891
Interest expense	(26,795)	(8)	2	-	(26,801)
Write-off of prior debt issuance costs ...	(1,535)	-	-	-	(1,535)
Other income, net	<u>493</u>	<u>144</u>	<u>363</u>	<u>-</u>	<u>1,000</u>
Income (loss) before income taxes	(11,319)	20,542	(1,668)	-	7,555
Income tax expense	<u>2,521</u>	<u>450</u>	<u>(34)</u>	<u>-</u>	<u>2,937</u>
Net income (loss)	<u>\$ (13,840)</u>	<u>\$ 20,092</u>	<u>\$ (1,634)</u>	<u>\$ -</u>	<u>\$ 4,618</u>

Condensed Consolidating Statement of Operations for the Six Months Ended March 31, 2005

(in thousands)

	Guarantor				
	Principal Operations	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Systems	\$ 46,353	\$ -	\$ 1,217	\$ -	\$ 47,570
Services	<u>65,835</u>	<u>304</u>	<u>5,378</u>	<u>-</u>	<u>71,517</u>
Total revenues	112,188	304	6,595	-	119,087
Cost of revenues:					
Systems	27,927	-	686	-	28,613
Services	<u>25,003</u>	<u>-</u>	<u>2,888</u>	<u>-</u>	<u>27,891</u>
Total cost of revenues.....	52,930	-	3,574	-	56,504
Gross profit.....	59,258	304	3,021	-	62,583
Operating expenses:					
Sales and marketing.....	15,911	(120)	1,181	-	16,972
Product development.....	7,905	-	241	-	8,146
General and administrative.....	11,009	751	1,197	-	12,957
Amortization of purchased intangible assets.....	<u>394</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>394</u>
Total operating expenses	<u>35,219</u>	<u>631</u>	<u>2,619</u>	<u>-</u>	<u>38,469</u>
Operating income	24,039	(327)	402	-	24,114
Interest expense	(9,701)	(18)	-	-	(9,719)
Other income, net	<u>432</u>	<u>-</u>	<u>131</u>	<u>-</u>	<u>563</u>
Income (loss) before income taxes	14,770	(345)	533	-	14,958
Income tax expense	<u>5,787</u>	<u>-</u>	<u>(1)</u>	<u>-</u>	<u>5,786</u>
Net income (loss).....	<u>\$ 8,983</u>	<u>\$ (345)</u>	<u>\$ 534</u>	<u>\$ -</u>	<u>\$ 9,172</u>

Condensed Consolidating Statement of Cash Flows for the Six Months Ended March 31, 2006

(in thousands)

	Guarantor				
	Principal Operations	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in)					
operating activities	\$ 11,866	\$ 766	\$ (210)	\$ -	\$ 12,422
Investing activities					
Purchase of property and equipment	(2,525)	(214)	(62)	-	(2,801)
Capitalized software costs and databases	(2,993)	-	-	-	(2,993)
Purchase price adjustments	508	-	-	-	508
Equity distributions from partnerships ..	<u>679</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>679</u>
Net cash used in investing activities	(4,331)	(214)	(62)	-	(4,607)
Financing activities					
Proceeds from long-term debt	185,000	-	-	-	185,000
Repayment of senior unsecured bridge loan	(180,000)	-	-	-	(180,000)
Proceeds from credit facility	10,000	-	-	-	10,000
Repayment on credit facility	(10,000)	-	-	-	(10,000)
Payment on long-term debt	-	(149)	-	-	(149)
Repurchase of common stock	(840)	-	-	-	(840)
Exercise of stock options	105	-	-	-	105
Debt issuance costs	<u>(3,561)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,561)</u>
Net cash provided by (used in) financing activities	704	(149)	-	-	555
Net change in cash and cash equivalents	8,239	403	(272)	-	8,370
Cash and cash equivalents, beginning of period	<u>5,800</u>	<u>3,943</u>	<u>1,209</u>	<u>-</u>	<u>10,952</u>
Cash and cash equivalents, end of period	<u>\$ 14,039</u>	<u>\$ 4,346</u>	<u>\$ 937</u>	<u>\$ -</u>	<u>\$ 19,322</u>

Condensed Consolidating Statement of Cash Flows for the Six Months Ended March 31, 2005

(in thousands)

	<u>Guarantor</u>				
	<u>Principal Operations</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net cash provided by (used in)					
operating activities	\$ 10,726	\$ 444	\$ 834	\$ -	\$ 12,004
Investing activities					
Purchase of property and equipment	(1,283)	-	(96)	-	(1,379)
Capitalized software costs and databases.....	(2,393)	-	-	-	(2,393)
Purchase of businesses, net of cash acquired.....	(95,813)	-	-	-	(95,813)
Equity distributions from partnerships .	<u>135</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>135</u>
Net cash used in investing activities.....	(99,354)	-	(96)	-	(99,450)
Financing activities					
Proceeds from long-term debt	120,000	-	-	-	120,000
Payment on long-term debt facility	-	(167)	-	-	(167)
Debt issuance costs.....	<u>(6,035)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,035)</u>
Net cash used in financing activities	113,965	(167)	-	-	113,798
Net change in cash and cash equivalents.....	25,337	277	738	-	26,352
Cash and cash equivalents, beginning of period.....	<u>28,591</u>	<u>(107)</u>	<u>3,581</u>	<u>-</u>	<u>32,065</u>
Cash and cash equivalents, end of period.....	<u>\$ 53,928</u>	<u>\$ 170</u>	<u>\$ 4,319</u>	<u>\$ -</u>	<u>\$ 58,417</u>

Management's Discussion and Analysis of Financial Condition and Results of Operations

In this quarterly report, the terms the “Company”, “we”, “us” and “our” refer to Activant Solutions Holdings Inc. and its subsidiaries.

Overview

We are a provider of business management solutions with vertical-specific functionality to distribution businesses. With over 25 years of operating history, we have developed substantial expertise in serving businesses with complex distribution requirements in three primary vertical markets: hardlines and lumber; wholesale distribution; and the automotive parts aftermarket (“Auto”). The vertical markets we serve have the shared characteristic of being complex distribution businesses with advanced inventory management needs. Using a combination of proprietary software and extensive expertise in these vertical markets, we provide complete business management solutions consisting of tailored systems, product support and content and data services designed to meet the unique requirements of our customers. Our fully integrated systems and services include point-of-sale, inventory management, general accounting and enhanced data management that enable our customers to manage their day-to-day operations. Our revenues are derived from our four reporting segments which are organized around the following business management solutions:

- Systems, which is comprised primarily of proprietary software applications, implementation and training and third-party software, hardware and peripherals. For the three and six month periods ended March 31, 2006, Systems revenues accounted for approximately 41% of our total revenues;
- Product Support, which is comprised primarily of customer support activities, including support through our advice line, software updates, preventive and remedial on-site maintenance and depot repair services. Our product support services are generally provided on a subscription basis, and accordingly, revenues from this segment are generally recurring in nature. For the three and six month periods ended March 31, 2006, Product Support revenues accounted for approximately 40% of our total revenues;
- Content and Data Services, which is comprised primarily of proprietary database and data management products for the vertical markets we serve (such as our comprehensive electronic automotive parts and applications catalog and point-of-sale business analysis data), connectivity services, e-commerce, networking and security monitoring management solutions. Our content and data services are generally provided on a monthly subscription basis and accordingly, revenues from this segment are generally recurring in nature. For the three and six month periods ended March 31, 2006, Content and Data Services revenues accounted for approximately 16% of our total revenues; and
- Other Services, which is comprised primarily of business products, such as forms and other paper products. For the three and six month periods ended March 31, 2006, Other Services revenues accounted for approximately 2% of our total revenues.

Our revenues are derived from customers that operate in three vertical markets — hardlines and lumber, wholesale distribution and Auto — and from our productivity tools business.

- The hardlines and lumber vertical market consists of independent hardware retailers, home improvement centers, paint, glass and wallpaper stores, farm supply stores, retail nurseries and gardens and independent lumber and building material yards primarily in the United States. For the three and six month periods ended March 31, 2006, we generated approximately 42% of our total revenues from the hardlines and lumber vertical market.
- The wholesale distribution vertical market includes distributors of a range of products including electrical supply, plumbing, medical supply, heating and air conditioning, brick, stone and related materials, roofing, siding, insulation, industrial machinery and equipment, industrial supplies, and service establishment equipment, primarily in the United States. For the three and six month periods ended March 31, 2006, we generated approximately 30% of our total revenues from the wholesale distribution vertical market.

- Auto consists of customers involved in the manufacture, distribution, sale and installation of new and remanufactured parts used in the maintenance and repair of automobiles and light trucks, and includes manufacturers, warehouse distributors, parts stores, professional installers and service chains in North America and Europe. For the three and six month periods ended March 31, 2006, we generated approximately 25% of our total revenues from the Auto vertical market.
- The productivity tools business, which primarily consists of software migration and application development tools, which we acquired as a part of the Speedware acquisition. For the three and six month periods ended March 31, 2006, we generated approximately 4% of our total revenues from the productivity tools business.

Our results of operations include results of Speedware commencing after the consummation of the Speedware acquisition on March 30, 2005 and results of Prophet 21 commencing after the consummation of the Prophet 21 acquisition on September 13, 2005. Accordingly, our results of operations for the three months and six months ended March 31, 2006 and March 31, 2005 are not directly comparable.

Acquisition by Lone Star Holding Corp. and Related Events

On March 12, 2006, Lone Star Holding Corp., or Lone Star, Lone Star Merger Corp., or Merger Sub, and Activant Solutions Holdings Inc., or Activant Holdings, entered into an agreement and plan of merger, or the Merger Agreement, pursuant to which Merger Sub would merge with and into Activant Holdings. The merger was consummated on May 2, 2006, whereupon, Activant Holdings became wholly owned by funds affiliated with Hellman & Friedman LLC, Thoma Cressey Equity Partners, Inc. and JMI Equity (collectively the “Sponsors”) and certain members of management. Following the merger, on May 2, 2006, Activant Holdings merged with and into Activant Solutions Inc., with Activant Solutions Inc. continuing as the surviving corporation and wholly-owned subsidiary of Lone Star. These mergers are referred to in this quarterly report as the “mergers” and the mergers and the transactions related to the mergers are referred to collectively in this quarterly financial report as the “transactions.” The transactions closed on May 2, 2006.

On March 30, 2006, we commenced tender offers and related consent solicitations for all of our outstanding 10 ½% senior notes due 2011, floating rate senior notes due 2010 and senior floating rate PIK notes due 2011. The tender offers closed in conjunction with the acquisition transaction on May 2, 2006.

On the May 2, 2006 closing date of the mergers, our stockholders received \$4.00 per share for each share of our common stock, and \$7.2965 per share for each share of our Class A common stock. In addition, on May 2, 2006, each outstanding stock option was canceled and converted into the right to receive a cash payment equal to the excess, if any, of \$4.00 over the respective exercise price per share of each option.

Effective May 2, 2006, Pervez Qureshi, former Chief Operating Officer, became our President and Chief Executive Officer, replacing A. Laurence Jones, who resigned as of that date.

Key Components of Results of Operations

Revenues. We derive revenues primarily from three of our four reporting segments: Systems; Product Support; and Content and Data Services. Systems revenues include the sale of our proprietary software applications, implementation and training, and third-party software, hardware and peripherals. These revenues are generally derived from one-time sales. Product Support revenues generally consist of revenues associated with the software and hardware support and maintenance of our systems. Content and Data Services revenues consist of the sale of proprietary database and data management products, including our electronic automotive parts and applications catalog, exchanges and other information services. Product Support and Content and Data Services are provided on a subscription basis and, accordingly, the revenues are generally recurring in nature.

Cost of revenues. Cost of Systems revenues primarily includes computer hardware and peripherals purchased from third parties, the labor and overhead associated with integrating, shipping, installing and training customers on our systems and the amortization of capitalized software costs. Cost of Product Support revenues primarily includes personnel costs associated with the software and hardware support and maintenance of our systems. Cost of Content

and Data Services revenues primarily includes personnel costs associated with data entry into our information databases, the amortization of capitalized databases, telecommunications costs and facility costs. We capitalize certain portions of database costs in accordance with Statement of Financial Accounting Standards, or SFAS, No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed*.

Sales and marketing expense. Sales and marketing expense primarily consists of personnel costs associated with our sales and marketing efforts, commissions, bad debt expense related to our accounts receivable, depreciation, amortization, telecommunication costs and facility costs.

Product development expense. Product development expense primarily consists of personnel expenses and contract services associated with the development and maintenance of our software and databases, depreciation, amortization, telecommunication costs and facility costs. We capitalize certain portions of product development expenses in accordance with SFAS No. 86.

General and administrative expense. These costs include departmental costs for executive, legal, administrative services, finance, telecommunications, facilities and information technology.

Acquisitions

Speedware Corporation Inc. In March and April 2005, we acquired the common stock of Speedware for cash consideration of \$100.8 million. The Speedware acquisition solidifies our position as a provider of business management solutions to the hardlines and lumber vertical market through the addition of over 700 customers in this vertical market. The Speedware acquisition and related fees and expenses were funded with the proceeds of our offering of \$120.0 million aggregate principal amount of floating rate senior notes due 2010. The purchase price allocation is based upon the relative fair values of the identifiable assets acquired and liabilities assumed.

The Systems House, Inc. On May 16, 2005, we purchased substantially all of the assets of The Systems House, Inc. The System House, Inc.'s next generation business management solution, Vision, is designed for warehouse distributors in the automotive parts aftermarket. The total consideration paid for the acquisition was approximately \$2.6 million cash on hand.

Prophet 21, Inc. In September 2005, we acquired all of the outstanding capital stock of Prophet 21 for cash of \$217.7 million. Prophet 21 is a provider of business management solutions to the wholesale distribution vertical market. We believe that the integration of Prophet 21 into our operations has significantly enhanced our position and expertise serving the wholesale distribution vertical market and provided additional systems and service offerings for our customers. The Prophet 21 acquisition and related fees and expenses were funded with a combination of the proceeds of a \$180.0 million senior unsecured bridge loan, which was refinanced in October, and \$42.9 million cash on hand. The purchase price allocation is based upon the relative fair values of the identifiable assets acquired and liabilities assumed.

General Parts, Inc. Relationship

In June 2004, General Parts, Inc., one of our largest customers, informed us of its intention to replace our J-CON parts store system with its own branded product at its company-owned stores and to recommend that its independent affiliated stores also replace the J-CON system. We believe the majority of this transition will be completed by the end of calendar year 2006. J-CON system sales revenues and product support revenues for all of General Parts' company-owned stores and independent affiliated stores were approximately \$0.1 million and \$6.8 million, respectively, for the year ended September 30, 2005. In addition, General Parts licenses one of our electronic automotive parts and application catalogs and uses our A-DIS warehouse system and our AConneX product. As a result, General Parts accounted for approximately \$17.5 million, or 6.6%, of our total revenues for fiscal year 2005.

Segment Reporting and Classification

We organize our business around four reportable segments (the "Segments") consisting of (i) Systems, (ii) Product

Support, (iii) Content and Data Services and (iv) Other Services. We sell our products and services to three distinct vertical markets consisting of hardlines and lumber, wholesale distribution and Auto and through our productivity tools business. Revenue for each Segment is also reported by each of these three vertical markets and productivity tools.

Our president and chief executive officer (the “CEO”) has been identified as the chief operating decision maker in assessing the performance of our Segments and the allocation of resources to them. Each Segment is managed separately. The CEO relies on the information derived directly from our management reporting system. The primary financial measure used by the CEO in assessing performance and allocating resources to the Segments is gross profit, a measure that is comprised of revenues less cost of revenues, each of which is described above under “Key Components of Results of Operations.” Pervez Qureshi is our current president and CEO.

Historical Results of Operations

Three months ended March 31, 2006 compared to three months ended March 31, 2005

Revenues. The following table sets forth, for the periods indicated, our Segment revenues by vertical market and for productivity tools and the variance thereof.

<i>(in thousands)</i>	Three months ended March 31,			
	<u>2005</u>	<u>2006</u>	<u>Variance \$</u>	<u>Variance %</u>
Systems Revenues:				
Hardlines and Lumber	\$ 18,059	\$ 20,410	\$ 2,351	13.0%
Auto	3,646	4,705	1,059	29.0%
Wholesale Distribution	690	13,225	12,535	-
Productivity Tools	-	2,299	2,299	-
Total Systems Revenues	<u>\$ 22,395</u>	<u>\$ 40,639</u>	<u>\$ 18,244</u>	<u>81.5%</u>
Product Support Revenues:				
Hardlines and Lumber	\$ 10,593	\$ 16,282	\$ 5,689	53.7%
Auto	8,705	7,493	(1,212)	(13.9)%
Wholesale Distribution	406	14,377	13,971	-
Productivity Tools	-	1,828	1,828	-
Total Product Support Revenues	<u>\$ 19,704</u>	<u>\$ 39,980</u>	<u>\$ 20,276</u>	<u>102.9%</u>
Content and Data Services Revenues:				
Hardlines and Lumber	\$ 1,411	\$ 1,405	\$ (6)	(0.4)%
Auto	12,407	12,013	(394)	(3.2)%
Wholesale Distribution	483	2,326	1,843	381.6%
Productivity Tools	-	-	-	-
Total Content and Data Services Revenues	<u>\$ 14,301</u>	<u>\$ 15,744</u>	<u>\$ 1,443</u>	<u>10.1%</u>
Other Services Revenues:				
Hardlines and Lumber	\$ 1,648	\$ 2,494	\$ 846	51.3%
Auto	-	151	151	-
Wholesale Distribution	100	45	(55)	(55.0)%
Productivity Tools	-	-	-	-
Total Other Revenues	<u>\$ 1,748</u>	<u>\$ 2,690</u>	<u>\$ 942</u>	<u>53.9%</u>
Total Revenues:				
Hardlines and Lumber	\$ 31,711	\$ 40,591	\$ 8,880	28.0%
Auto	24,758	24,362	(396)	(1.6)%
Wholesale Distribution	1,679	29,973	28,294	-
Productivity Tools	-	4,127	4,127	-
Total Revenues	<u>\$ 58,148</u>	<u>\$ 99,053</u>	<u>\$ 40,905</u>	<u>70.3%</u>

Total revenues for the three months ended March 31, 2006 increased by \$40.9 million, or 70.3%, compared to the three months ended March 31, 2005. This increase was all attributable to the Speedware, The Systems House and the Prophet 21 acquisitions for the three months ending March 31, 2006.

Factors affecting Systems revenues for the three months ended March 31, 2006.

- Systems revenues from our hardlines and lumber vertical market increased by \$2.4 million, or 13.0%, primarily due to revenues attributable to the Speedware acquisition.
- Systems revenue for Auto increased by \$1.1 million, or 29.0%, primarily due to increased focus on migrating customers from older, legacy systems platforms to our Prism system platform and higher sales of Prism peripherals and upgrades. The Systems House acquisition accounted for \$0.3 million of the total \$1.1 million increase.

- Systems revenue from our wholesale distribution vertical market increased by \$12.5 million due to revenues attributable to the Speedware and Prophet 21 acquisitions.
- The \$2.3 million increase in productivity tools systems revenues is attributable to the Speedware acquisition.

Factors affecting Product Support revenues for the three months ended March 31, 2006.

- Product Support revenue from our hardlines and lumber vertical market increased by \$5.7 million, or 53.7%, partially due to \$4.1 million of revenues attributable to the Speedware acquisition. The remaining \$1.6 million increase is attributable to our historical increased systems sales, which over time, results in increased Product Support revenues.
- Auto Product Support revenues declined by \$1.2 million, or 13.9%. Auto experienced a decline of approximately \$0.3 million in product support revenues associated with customer attrition from our older systems that we continue to support but do not actively sell to new customers. We expect that product support revenues from our older systems will continue to decline. Approximately \$0.9 million of the decline was associated with General Parts, Inc.'s decision to begin replacing our J-CON system with its own branded store system. We do not expect to recapture this product support revenue.
- The \$14.0 million increase in Product Support revenues from our wholesale distribution vertical market is primarily attributable to the Speedware and Prophet 21 acquisitions.
- The \$1.8 million increase in productivity tools Product Support revenues is attributable to the Speedware acquisition.

Factors affecting Content and Data Services revenues for the three months ended March 31, 2006.

- Auto Content and Data Services revenues declined by \$0.4 million, or 3.2%, due to a decline of approximately \$0.3 million associated with customer attrition from our older systems that we continue to support but do not actively sell to new customers. An additional decline of \$0.7 million was related to a new contract and simplified service terms with a large customer. These declines were offset by \$0.3 million of new electronic automotive parts and applications catalog sales to non-systems customers and a \$0.2 million increase in revenues from our AConneX connectivity product.
- Content and Data Services revenues from our wholesale distribution vertical market increased by \$1.8 million, primarily due to the Prophet 21 acquisition.

Total cost of revenues and gross margins as a percentage of revenues.

The following table sets forth, for the periods indicated, our cost of revenues and the variance thereof.

<i>(in thousands)</i>	Three months ended March 31,			
	2005	2006	Variance \$	Variance %
Cost of revenues:				
Systems	\$ 13,813	\$ 22,422	\$ 8,609	62.3 %
Product Support.....	8,837	16,321	7,484	84.7 %
Content and Data Services	3,919	4,479	560	14.3 %
Other Services	1,163	1,917	754	64.8 %
Total cost of revenues	<u>\$ 27,732</u>	<u>\$ 45,139</u>	<u>\$ 17,407</u>	<u>62.8 %</u>

The following table sets forth, for the periods indicated, our gross margin as a percentage of revenues.

	Three months ended March 31,	
	2005	2006
Gross margin as a percentage of revenues by segment:		
Systems.....	38.3%	44.8%
Product Support.....	55.2%	59.2%
Content and Data Services.....	72.6%	71.6%
Other Services.....	33.5%	28.7%
Total gross margin as a percentage of revenues.....	52.3%	54.4%

Cost of Revenues. Total cost of revenues for the three months ended March 31, 2006 increased by \$17.4 million, or 62.8%, compared to the three months ended March 31, 2005. This increase was comprised primarily of \$7.0 million, \$0.3 million and \$8.7 million in costs attributable to Speedware, The Systems House and Prophet 21 product sales, respectively. Gross margin as a percentage of revenues increased from 52.3% for the three months ended March 31, 2005 to 54.4% for the three months ended March 31, 2006.

- *Cost of Systems Revenues.* Total cost of Systems revenues for the three months ended March 31, 2006 increased by \$8.6 million, or 62.3%, compared to the three months ended March 31, 2005. This increase was comprised primarily of \$8.0 million in costs attributable to Speedware, The Systems House and Prophet 21 System revenues. The remainder of the increase was related to an increase in systems revenues. Gross margin as a percentage of revenues increased from 38.3% for the three months ended March 31, 2005 to 44.8% for the three months ended March 31, 2006. The improvement in Systems gross margin is predominantly due to the higher margins associated with sales of Speedware and Prophet 21 systems products.
- *Cost of Product Support Revenues.* Cost of Product Support revenues for the three months ended December 31, 2005 increased by \$7.5 million, or 84.7%, compared to the three months ended December 31, 2004. This increase was comprised primarily of \$6.9 million in costs attributable to Speedware, The Systems House and Prophet 21 Product Support sales, as well as investments made in additional people and tools for our advice line customer support. Gross margin as a percentage of revenues increased from 55.2% for the three months ended March 31, 2005 to 59.2% for the three months ended March 31, 2006. The improvement in Product Support gross margin is predominantly due to the higher margins associated with Speedware and Prophet 21 support.
- *Cost of Content and Data Services Revenues.* Cost of Content and Data Services revenues for the three months ended March 31, 2006 increased by \$0.6 million, or 14.3%, compared to the three months ended March 31, 2005. About \$0.4 million of the increase was due to the Prophet 21 acquisition while the remainder increase represented additional investments in our electronic automotive parts and applications catalog. Gross margin as a percentage of Content and Data Services revenues decreased from 72.6% for the three months ended March 31, 2005 to 71.6% for the three months ended March 31, 2006. We expect our cost of Content and Data Services revenues to continue to increase as we raise our investment in our electronic catalog for Auto.

Total Operating Expenses. The following table sets forth, for the periods indicated, operating expenses and the variance thereof.

<i>(in thousands)</i>	Three months ended March 31,			
	2005	2006	Variance \$	Variance %
Sales and Marketing Expense.....	\$ 8,462	\$ 13,175	\$ 4,713	55.7 %
Product Development Expense.....	4,076	9,684	5,608	137.6 %
General and Administrative Expense.....	5,768	11,766	5,998	104.0 %
Amortization of Purchased Intangibles.....	197	3,725	3,528	-
Total Operating Expenses.....	<u>\$ 18,503</u>	<u>\$ 38,350</u>	<u>\$ 19,847</u>	<u>107.3 %</u>

The following table sets forth, for the periods indicated, our operating expenses as a percentage of revenues.

Three months ended
March 31,

	2005	2006
Operating Expenses as a percentage of revenues:		
Sales and Marketing Expense	14.6 %	13.3 %
Product Development Expense	7.0 %	9.8 %
General and Administrative Expense.....	9.9 %	11.9 %
Amortization of Purchased Intangibles.....	0.3 %	3.8 %
Total operating expenses as a percentage of revenues.....	31.8 %	38.7 %

Total operating expenses increased by \$19.8 million, or 107.3%, for the three months ended March 31, 2006 compared to the three months ended March 31, 2005. The increase was primarily a result of the inclusion of Speedware, The Systems House and Prophet 21 operating expenses of \$13.8 million subsequent to the acquisitions and increased amortization of purchased intangibles of \$3.5 million.

- *Sales and Marketing Expense.* Sales and marketing expense increased by \$4.7 million, or 55.7%, for the three months ended March 31, 2006 compared to the three months ended March 31, 2005. The increase was due to the inclusion of sales and marketing costs related to the Speedware, The Systems House and Prophet 21 acquisitions.
- *Product Development Expense.* Product development expense increased by \$5.6 million, or 137.6%, for the three months ended March 31, 2006 compared to the three months ended March 31, 2005. The increase was due to the inclusion of product development costs related to the Speedware, The Systems House and Prophet 21 acquisitions.
- *General and Administrative Expense.* General and administrative expense increased by \$6.0 million, or 104.0%, for the three months ended March 31, 2006 compared to the three months ended March 31, 2005. The increase was primarily a result of the inclusion of \$3.4 million general and administrative costs related to the Speedware, The Systems House and Prophet 21 acquisitions, approximately \$1.8 for other professional service expenses incurred in connection with an initial public offering of our common stock, which offering was abandoned in connection with the mergers, and a general increase in other costs.
- *Amortization of Purchased Intangibles.* Amortization expense related to purchased intangible assets was \$3.7 million for the three months ended March 31, 2006 compared to \$0.2 million for the three months ended March 31, 2005. The increase resulted from the amortization of the intangible assets associated with the Speedware and Prophet 21 acquisitions.

Operating Income. Due to the above factors, operating income for the three months ended March 31, 2006 increased by \$3.7 million, or 30.6%. Operating income as a percentage of total revenues decreased to 15.7% of total revenues, from 20.5% of total revenues, for the three months ended March 31, 2006 and 2005, respectively. The decrease in operating income as a percentage of total revenues for the three months ended March 31, 2006 was primarily a result of the additional amortization of purchased intangibles associated with the Speedware and Prophet 21 acquisitions.

Interest Expense. Interest expense for the three months ended March 31, 2006 was \$13.7 million compared to \$5.3 million for the three months ended March 31, 2005, an increase of \$8.4 million. The increase is primarily a result of interest expense associated with our offering of \$265.0 million aggregate principal amount of floating rate senior notes due 2010 and \$40.0 million of senior floating rate PIK notes due 2011, which were used to finance the Speedware and Prophet 21 acquisitions.

Net Income. As a result of the above factors, we realized net income of \$1.4 million for the three months ended March 31, 2006, compared to net income of \$4.1 million for the three months ended March 31, 2005.

Six months ended March 31, 2006 compared to six months ended March 31, 2005

Revenues. The following table sets forth, for the periods indicated, our Segment revenues by vertical market and for productivity tools and the variance thereof.

<i>(in thousands)</i>	Six months ended March 31,			
	<u>2005</u>	<u>2006</u>	<u>Variance \$</u>	<u>Variance %</u>
Systems Revenues:				
Hardlines and Lumber	\$ 38,942	\$ 43,234	\$ 4,292	11.0 %
Auto	7,066	8,930	1,864	26.4 %
Wholesale Distribution	1,562	25,631	24,069	-
Productivity Tools	-	3,767	3,767	-
Total Systems Revenues	<u>\$ 47,570</u>	<u>\$ 81,562</u>	<u>\$ 33,992</u>	<u>71.5 %</u>
Product Support Revenues:				
Hardlines and Lumber	\$ 20,971	\$ 31,943	\$ 10,972	52.3 %
Auto	17,804	15,353	(2,451)	(13.8)%
Wholesale Distribution	837	28,308	27,471	-
Productivity Tools	-	3,710	3,710	-
Total Product Support Revenues	<u>\$ 39,612</u>	<u>\$ 79,314</u>	<u>\$ 39,702</u>	<u>100.2 %</u>
Content and Data Services Revenues:				
Hardlines and Lumber	\$ 2,662	\$ 2,864	\$ 202	7.6 %
Auto	25,087	24,429	(658)	(2.6)%
Wholesale Distribution	997	4,427	3,430	344.0 %
Productivity Tools	-	-	-	-
Total Content and Data Services Revenues	<u>\$ 28,746</u>	<u>\$ 31,720</u>	<u>\$ 2,974</u>	<u>10.3 %</u>
Other Services Revenues:				
Hardlines and Lumber	\$ 2,978	\$ 4,223	\$ 1,245	41.8 %
Auto	-	280	280	-
Wholesale Distribution	181	85	(96)	(53.0)%
Productivity Tools	-	-	-	-
Total Other Revenues	<u>\$ 3,159</u>	<u>\$ 4,588</u>	<u>\$ 1,429</u>	<u>45.2 %</u>
Total Revenues:				
Hardlines and Lumber	\$ 65,553	\$ 82,264	\$ 16,711	25.5 %
Auto	49,957	48,992	(965)	(1.9)%
Wholesale Distribution	3,577	58,451	54,874	-
Productivity Tools	-	7,477	7,477	-
Total Revenues	<u>\$ 119,087</u>	<u>\$ 197,184</u>	<u>\$ 78,097</u>	<u>65.6 %</u>

Total revenues for the six months ended March 31, 2006 increased by \$78.1 million, or 65.6%, compared to the six months ended March 31, 2005. This increase was attributable to the Speedware, The Systems House and Prophet 21 acquisitions.

Factors affecting Systems revenues for the six months ended March 31, 2006.

- Systems revenues from our hardlines and lumber vertical market increased by \$4.3 million, or 11.0%, primarily due to revenues attributable to the Speedware acquisition.
- Systems revenue for Auto increased by \$1.9 million, or 26.4%, primarily due to increased focus on migrating customers from older, legacy systems platforms to our Prism system platform and higher sales of Prism peripherals and upgrades. The Systems House acquisition accounted for \$0.4 million of the \$1.9 million revenue increase.
- Systems revenue from our wholesale distribution vertical market increased by \$24.1 million primarily due to \$24.5 million of revenues attributable to the Speedware and Prophet 21 acquisitions offset by lower organic sales to customers of our eagle platform.
- The \$3.8 million increase in productivity tools systems revenues is attributable to the Speedware acquisition.

Factors affecting Product Support revenues for the six months ended March 31, 2006.

- Product Support revenue from our hardlines and lumber vertical market increased by \$11.0 million, or 52.3%, partially due to \$8.2 million of revenues attributable to the Speedware acquisition. The remaining \$2.8 million increase is attributable to our historical increased systems sales, which over time, results in increased Product Support revenues.
- Auto Product Support revenues declined by \$2.5 million, or 13.8%. Auto experienced a decline of approximately \$0.7 million in product support revenues associated with customer attrition from our older systems that we continue to support but do not actively sell to new customers. We expect that product support revenues from our older systems will continue to decline. Approximately \$1.6 million of the decline was associated with General Parts, Inc.'s decision to begin replacing our J-CON system with its own branded store system. We do not expect to recapture this product support revenue. Revenue decreases were offset by \$0.2 million of revenue associated with The Systems House acquisition.
- The \$27.5 million increase in Product Support revenues from our wholesale distribution vertical market is primarily attributable to the Speedware and Prophet 21 acquisitions.
- The \$3.7 million increase in productivity tools Product Support revenues is attributable to the Speedware acquisition.

Factors affecting Content and Data Services revenues for the six months ended March 31, 2006.

- Auto Content and Data Services revenues declined by \$0.7 million, or 2.6%, due to a decline of approximately \$0.8 million associated with customer attrition from our older systems that we continue to support but do not actively sell to new customers. An additional decline of \$1.3 million was related to a new contract and simplified service terms with a large customer. These declines were partially offset by \$0.8 million of new electronic automotive parts and applications catalog sales to non-systems customers and a \$0.5 million increase in revenues from our AConneX connectivity product.
- Content and Data Services revenues from our wholesale distribution vertical market increased by \$3.4 million, primarily due to the Prophet 21 acquisition.

Total cost of revenues and gross margins as a percentage of revenues.

The following table sets forth, for the periods indicated, our cost of revenues and the variance thereof.

<i>(in thousands)</i>	Six months ended March 31,			
	2005	2006	Variance \$	Variance %
Cost of revenues:				
Systems	\$ 28,613	\$ 43,437	\$ 14,824	51.8 %
Product Support.....	17,986	32,290	14,304	79.5 %
Content and Data Services	7,815	8,849	1,034	13.2 %
Other Services	2,090	3,224	1,134	54.3 %
Total cost of revenues	<u>\$ 56,504</u>	<u>\$ 87,800</u>	<u>\$ 31,296</u>	<u>55.4 %</u>

The following table sets forth, for the periods indicated, our gross margin as a percentage of revenues.

Gross margin as a percentage of revenues by segment:	Six months ended March 31,	
	2005	2006
Systems.....	40.0%	46.7%
Product Support	54.6%	59.3%

Content and Data Services.....	72.8%	72.1%
Other Services	33.8%	29.7%
Total gross margin as a percentage of revenues.....	52.6%	55.5%

Cost of Revenues. Total cost of revenues for the six months ended March 31, 2006 increased by \$31.3 million, or 55.4%, compared to the six months ended March 31, 2005. This increase was comprised primarily of \$13.0 million, \$0.7 million and \$16.1 million in costs attributable to Speedware, The Systems House and Prophet 21 product sales, respectively. Gross margin as a percentage of revenues increased from 52.6% for the six months ended March 31, 2005 to 55.5% for the six months ended March 31, 2006.

- *Cost of Systems Revenues.* Cost of Systems revenues for the six months ended March 31, 2006 increased by \$14.8 million, or 51.8%, compared to the six months ended March 31, 2005. This increase was comprised primarily of \$14.3 million in costs attributable to Speedware, The Systems House and Prophet 21 System revenues and an increase in systems revenues. Gross margin as a percentage of revenues increased from 40.0% for the six months ended March 31, 2005 to 46.7% for the six months ended March 31, 2006. The improvement in Systems gross margin is predominantly due to the higher margins associated with sales of Speedware and Prophet 21 systems products.
- *Cost of Product Support Revenues.* Cost of Product Support revenues for the six months ended December 31, 2005 increased by \$14.3 million, or 79.5%, compared to the six months ended December 31, 2004. This increase was comprised primarily of \$13.5 million in costs attributable to Speedware, The Systems House and Prophet 21 Product Support sales and investments made in additional people and tools for our advice line customer support. Gross margin as a percentage of revenues increased from 54.6% for the six months ended March 31, 2005 to 59.3% for the six months ended March 31, 2006. The improvement in Product Support gross margin is predominantly due to the higher margins associated with sales of Speedware and Prophet 21 products.
- *Cost of Content and Data Services Revenues.* Cost of Content and Data Services revenues for the six months ended March 31, 2006 increased by \$1.0 million, or 13.2%, compared to the six months ended March 31, 2005. About \$0.7 million of the increase was due to the Prophet 21 acquisition while the remainder increase represented additional investments in our electronic automotive parts and applications catalog. Gross margin as a percentage of Content and Data Services revenues decreased from 72.8% for the six months ended March 31, 2005, to 72.1% for the six months ended March 31, 2006. We expect our cost of Content and Data Services revenues to continue to increase as we raise our investment in our electronic catalog for Auto.

Total Operating Expenses. The following table sets forth, for the periods indicated, operating expenses and the variance thereof.

<i>(in thousands)</i>	Six months ended March 31,			
	2005	2006	Variance \$	Variance %
Sales and Marketing Expense.....	\$ 16,972	\$ 26,217	\$ 9,245	54.5 %
Product Development Expense.....	8,146	19,299	11,153	136.9 %
General and Administrative Expense.....	12,957	21,527	8,570	66.1 %
Amortization of Purchased Intangibles.....	394	7,450	7,056	-
Total Operating Expenses.....	<u>\$ 38,469</u>	<u>\$ 74,493</u>	<u>\$ 36,024</u>	<u>93.6 %</u>

The following table sets forth, for the periods indicated, our operating expenses as a percentage of revenues.

	Six months ended March 31,	
	2005	2006
Operating Expenses as a percentage of revenues:		
Sales and Marketing Expense	14.3 %	13.3 %
Product Development Expense	6.8 %	9.8 %
General and Administrative Expense.....	10.9 %	10.9 %
Amortization of Purchased Intangibles.....	0.3 %	3.8 %

Total operating expenses as a percentage of revenues..... 32.3 % 37.8 %

Total operating expenses increased by \$36.0 million, or 93.6%, for the six months ended March 31, 2006 compared to the six months ended March 31, 2005. The increase was primarily a result of the inclusion of Speedware and Prophet 21 results subsequent to the acquisitions of \$26.8 million and increased amortization of purchased intangibles of \$7.1 million.

- *Sales and Marketing Expense.* Sales and marketing expense increased by \$9.2 million, or 54.5%, for the six months ended March 31, 2006 compared to the six months ended March 31, 2005. The increase was primarily a result of the inclusion of \$8.7 million of sales and marketing costs related to the Speedware, The Systems House and Prophet 21 acquisitions.
- *Product Development Expense.* Product development expense increased by \$11.2 million, or 136.9%, for the six months ended March 31, 2006 compared to the six months ended March 31, 2005. Approximately \$11.0 million of the increase was related to the inclusion of product development costs related to the Speedware, The Systems House and Prophet 21 acquisitions.
- *General and Administrative Expense.* General and administrative expense increased by \$8.6 million, or 66.1%, for the six months ended March 31, 2006 compared to the six months ended March 31, 2005. The increase was primarily a result of the inclusion of \$6.8 million general and administrative costs related to the Speedware, and Prophet 21 acquisitions and \$1.8 for other professional service expenses incurred in connection with an initial public offering of our common stock, which offering was abandoned in connection with the mergers.
- *Amortization of Purchased Intangibles.* Amortization expense related to purchased intangible assets was \$7.5 million for the six months ended March 31, 2006 compared to \$0.4 million for the six months ended March 31, 2005. The increase resulted from the amortization of the intangibles associated with the Speedware and Prophet 21 acquisitions.

Operating Income. Due to the above factors, operating income for the six months ended March 31, 2006 increased by \$10.8 million, or 44.7%. Operating income as a percentage of total revenues decreased to 17.7% of total revenues, from 20.2% of total revenues, for the six months ended March 31, 2006 and 2005, respectively. The decrease in operating income as a percentage of total revenues was primarily a result of the additional amortization of purchased intangibles associated with the Speedware and Prophet 21 acquisitions. The higher gross margin percentage was offset by a higher percentage spend on product development which was driven primarily by the Prophet 21 acquisition.

Interest Expense. Interest expense for the six months ended March 31, 2006 was \$28.3 million compared to \$9.7 million for the six months ended March 31, 2005, an increase of \$18.6 million. The increase is primarily a result of interest expense associated with our offering of \$265.0 million aggregate principal amount of floating rate senior notes due 2010 and \$40.0 million of senior floating rate PIK notes due 2011, which were used to finance the Speedware and Prophet 21 acquisitions.

Net Income. As a result of the above factors, we realized net income of \$4.6 million for the six months ended March 31, 2006, compared to net income of \$9.2 million for the six months ended March 31, 2005.

Liquidity and Capital Resources

Historical as of March 31, 2006

As of March 31, 2006, we had \$460.5 million in outstanding indebtedness comprised primarily of \$155.5 million aggregate principal amount of 10 ½% senior notes due 2011, net of a \$1.3 million discount and \$265.0 million aggregate principal amount of floating rate senior notes due 2010 and \$40.0 million of senior floating rate PIK notes due 2011. Our prior senior revolving credit facility provided for maximum borrowings of up to \$20.0 million, including letters of credit up to a maximum limit of \$5.0 million. At March 31, 2006, we had \$0.5 million of letters of credit issued and outstanding under our prior senior revolving credit facility. \$265.0 million of our floating rate senior notes due 2010 bear interest at LIBOR plus 6%, and the remaining \$40.0 million bear interest at LIBOR plus 9%.

Effective October 31, 2005, we entered into a two year interest rate swap, for a notional amount of \$100 million, to achieve a more equal mix of fixed and floating rate debt. The interest rate swap effectively converted \$100 million of floating rate debt to fixed rate debt by fixing the three month LIBOR rate we pay at 4.72%.

Our senior revolving credit facility and the indentures governing our 10 ½% senior notes due 2011, floating rate senior notes due 2010 and senior floating rate PIK notes due 2011 imposed certain restrictions on us, the most significant of which include limitations on additional indebtedness, liens, guarantees, payment or declaration of dividends, sale of assets, investments, capital expenditures and transactions with affiliates. In addition, under our senior revolving credit facility, we were obligated to meet certain quarterly tests relating to certain financial amounts and ratios as defined in our prior senior revolving credit facility. At March 31, 2006, we were in compliance with these covenants.

Our principal liquidity requirements are for debt service, capital expenditures and working capital. Our ability to service our indebtedness will depend on our ability to generate cash in the future. Our net cash provided by operating activities was \$12.4 million for the six months ended March 31, 2006 compared to \$12.0 million for the six months ended March 31, 2005. For the six months ended March 31, 2006, cash flow provided by operating activities of \$12.4 million was primarily from net income of \$4.6 million, adjusted for amortization and depreciation costs of \$14.8 million, which was partially offset by an increase in working capital of \$11.8 million. For the six months ended March 31, 2005, cash flow provided by operating activities of \$12.0 million was primarily from net income of \$9.2 million adjusted for amortization and depreciation costs of \$6.9 million, partially offset by an increase in working capital of \$5.1 million.

Our investing activities used net cash of \$4.6 million during the six months ended March 31, 2006 and 2005. During the six months ended March 31, 2006, we received \$0.5 million as a purchase price adjustment for Prophet 21 and we received \$0.7 million for the sale of a partnership. Our capital expenditures were \$5.8 million and \$3.8 million for the six months ended March 31, 2006 and 2005, respectively. These amounts included capitalized computer software and database costs of \$3.0 million and \$2.4 million for the six months ended March 31, 2006 and 2005, respectively.

Our financing activities generated cash of \$0.6 million for the six months ended March 31, 2006, primarily consisting of the issuance of \$185.0 million aggregate principal amount of floating rate senior notes due 2010. The proceeds, net of \$3.6 million debt issuance costs, were used to repay our \$180.0 senior unsecured bridge loan. We also borrowed \$10.0 million under our senior revolving credit facility, which was fully repaid in the second quarter of fiscal 2006.

Post-Transactions

We believe that cash flows from operations, together with amounts available under the revolving credit facility under the Senior Secured Credit Agreement (defined below), will be sufficient to fund our working capital, capital expenditures and debt service requirements for at least the next twelve months. After the consummation of the transactions, we are highly leveraged. As of May 19, 2006, we have approximately \$590 million in aggregate indebtedness outstanding, with an additional \$40.0 million of borrowing capacity available under our new revolving credit facility (not giving effect to any outstanding letters of credit, which reduce the amount available under our new revolving credit facility). Our ability to meet our working capital and debt service requirements, however, is subject to future economic conditions and to financial, business and other factors, many of which are beyond our control. If we are not able to meet such requirements, we may be required to seek additional financing. There can be no assurance that we will be able to obtain financing from other sources on terms acceptable to us, if at all.

From time to time, we intend to pursue acquisitions, but the timing, size or success of any acquisition effort and the related potential capital commitments cannot be predicted. We expect to fund future cash acquisitions primarily with cash flow from operations and borrowings, including borrowing from amounts available under our Senior Secured Credit Agreement or through new debt issuances. We may also issue additional equity either directly or in connection with any such acquisitions. There can be no assurance that acquisition funds will be available on terms acceptable to us, or at all.

Senior Secured Credit Facilities

On May 2, 2006, in connection with the consummation of the Mergers, Merger Sub and Lone Star entered into a credit

agreement with the lenders party to such agreement, Deutsche Bank Securities Inc. and J.P. Morgan Securities Inc. as co-lead arrangers, Deutsche Bank Securities Inc., J.P. Morgan Securities Inc. and Lehman Brothers Inc., as joint bookrunners, Deutsche Bank Trust Company Americas, as administrative agent, swing line lender and an L/C issuer, JPMorgan Chase Bank, N.A., as syndication agent, and Lehman Commercial Paper Inc., as documentation agent (the "Senior Secured Credit Agreement"). The borrower under the Senior Secured Credit Agreement initially was Merger Sub and immediately following the completion of the mergers is the company. The Senior Secured Credit Agreement provides for (i) a seven-year term loan in the amount of \$390.0 million, amortized at a rate of 1.00% per year on a quarterly basis for the first six and three-quarters years after May 2, 2006, with the balance paid at maturity, and (ii) a five-year revolving credit facility that permits loans in an aggregate amount of up to \$40.0 million, which includes a letter of credit facility and a swing line facility. Principal amounts outstanding under the revolving credit facility are due and payable in full at maturity, five years from May 2, 2006. In addition, subject to certain terms and conditions, the Senior Secured Credit Agreement provides for one or more uncommitted incremental term loan and/or revolving credit facilities in an aggregate amount not to exceed \$75.0 million. Proceeds of the term loan on the initial borrowing date were used to partially finance the mergers, to refinance certain of our indebtedness and to pay fees and expenses incurred in connection with the mergers and the related financings and transactions. Proceeds of the revolving credit facility and any incremental facilities will be used for our working capital and general corporate purposes.

The borrowings under the Senior Secured Credit Agreement bear interest at a rate equal to an applicable margin plus, at our option, either (a) a base rate determined by reference to the higher of (1) the prime rate of Deutsche Bank Trust Company Americas, and (2) the federal funds rate plus 1/2 of 1%; or (b) a reserve adjusted Eurodollar rate on deposits for periods of one-, two-, three-, or six-months (or, to the extent agreed to by each applicable lender, nine- or twelve-months or less than one month). The initial applicable margin for borrowings is:

- under the revolving credit facility, 1.25% with respect to base rate borrowings and 2.25% with respect to Eurodollar rate borrowings, which may be reduced subject to our attainment of certain leverage ratios; and
- under the term loan facilities, 1.00% with respect to base rate borrowings and 2.00% with respect to Eurodollar rate borrowings.

In addition to paying interest on outstanding principal under the Senior Secured Credit Agreement, we will be required to pay a commitment fee to the lenders under the revolving credit facility in respect of the unutilized commitments thereunder. The initial commitment fee rate is 0.50% per annum. The commitment fee rate may be reduced subject to our attaining certain leverage ratios. We must also pay customary letter of credit fees.

The Senior Secured Credit Agreement contains a number of covenants that, among other things, restrict, subject to certain exceptions, our ability to:

- incur additional indebtedness (including contingent liabilities and seller notes);
- create liens on assets;
- enter into sale-leaseback transactions;
- engage in mergers or acquisitions;
- dispose of assets;
- pay dividends and restricted payments;
- make investments (including joint ventures);
- make capital expenditures;
- prepay other indebtedness;
- engage in certain transactions with affiliates;
- amend agreements governing our subordinated indebtedness;
- amend organizational documents and other material agreements; and
- change the nature of our business.

In addition, the Senior Secured Credit Agreement requires us to maintain the following financial covenants:

- a maximum total net leverage ratio; and
- a minimum interest coverage ratio.

The Senior Secured Credit Agreement also contains certain customary affirmative covenants and events of default.

Senior Subordinated Notes Due 2016

On April 27, 2006, Merger Sub issued \$175,000,000 aggregate principal amount of 9.50% senior subordinated notes due May 2, 2016 under an indenture dated as of May 2, 2006, by and among Merger Sub, Lone Star, the company, the guarantors named in the indenture and Wells Fargo Bank, National Association, as trustee. The notes were issued in a private transaction that was not subject to the registration requirements of the Securities Act of 1933, as amended, but are expected to be exchanged for substantially identical notes to be registered with the Securities and Exchange Commission pursuant to a registration rights agreement entered into in connection with the indenture. As a result of the completion of the mergers, we have assumed the obligations with respect to the notes.

Each of our domestic subsidiaries, as primary obligors and not merely as sureties, jointly and severally, irrevocably and unconditionally guaranteed, on an unsecured senior subordinated basis, the performance and full and punctual payment when due, whether at maturity, by acceleration or otherwise, of all of our obligations under the indenture and the notes. The notes are our unsecured senior subordinated obligations and are subordinated in right of payment to all of our existing and future senior indebtedness (including the Senior Secured Credit Agreement), effectively subordinated to all of our secured indebtedness (including the Senior Secured Credit Agreement); and senior in right of payment to all of our existing and future subordinated indebtedness.

At any time prior to May 1, 2011, we may redeem all or a part of the notes at a redemption price equal to 100% of the principal amount of the notes redeemed plus an applicable make-whole premium plus accrued and unpaid interest and additional interest, if any, to the date of redemption. On and after May 1, 2011, we may redeem the notes, in whole or in part, at redemption prices set forth in the notes, plus accrued and unpaid interest thereon and additional interest, if any, to the applicable redemption date. In addition, until May 1, 2009, we may, at our option, on one or more occasions, redeem up to 35% of the aggregate principal amount of notes at a redemption price equal to 109.50% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon and additional interest, if any, to the applicable redemption date, with the net cash proceeds of one or more equity offerings; provided that at least 65% of the sum of the aggregate principal amount of notes originally issued under the indenture and any additional notes issued under the indenture after the issue date remains outstanding immediately after the occurrence of each such redemption; and provided further that each such redemption occurs within 90 days of the date of closing of each such equity offering.

Upon the occurrence of a change of control (as defined in the Indenture), we are required to offer to purchase all of the notes at a price in cash equal to 101% of the aggregate principal amount thereof plus accrued and unpaid interest and additional interest, if any, to the date of purchase.

The indenture contains covenants limiting, among other things, our ability and the ability of the guarantors, directly or indirectly, to act as follows:

- incur additional indebtedness or issue certain preferred stock;
- pay dividends on, redeem or repurchase our capital stock or make other restricted payments;
- make investments;
- create certain liens;
- sell certain assets;
- incur obligations that restrict the ability of our subsidiaries to make dividend or other payments to us;
- guarantee indebtedness;
- engage in transactions with affiliates;
- create or designate unrestricted subsidiaries; and
- consolidate, merge or transfer all or substantially all of our assets and the assets of our subsidiaries on a consolidated basis.

The indenture also provides for certain customary events of default, including, among others, nonpayment of principal or interest, failure to pay final judgments in excess of a specified threshold, failure of a guarantee to remain in effect,

bankruptcy and insolvency events, and cross defaults, which would permit the principal, premium, if any, interest and other monetary obligations on all the then outstanding notes to be declared due and payable immediately.

Repayment of Existing Debt

On March 30, 2006, we commenced tender offers for all of our and Activant Holdings's outstanding 10 ½% senior notes due 2011, floating rate senior notes due 2010 and senior floating rate PIK notes due 2011 and solicitations of consents from the holders of these notes with respect to amendments to the indentures governing such notes that would eliminate substantially all of the restrictive covenants contained in such indentures and in such notes and also eliminate certain events of default, certain covenants relating to mergers and certain conditions to legal defeasance and covenant defeasance, but would not eliminate, among other things, certain repurchase obligations in respect of such notes. On April 13, 2006, we executed the proposed amendments to the indentures for such notes, which amendments became operative immediately prior to the mergers on May 2, 2006. The tender offers closed in conjunction with the mergers on May 2, 2006. After completion of the tender offers, \$2.0 million in aggregate principal amount of the 10 ½% senior notes due 2011, \$22.6 million in aggregate principal amount of the floating rate senior notes due 2010 and none of the senior floating rate PIK notes due 2011 remain outstanding. Also in connection with the completion of the mergers, we delivered an irrevocable notice of redemption with respect to the floating rate senior notes due 2010 that had not been tendered, which redemption will occur on June 1, 2006.

Quantitative and Qualitative Disclosures about Market Risk.

There were no material changes relating to our exposure to market risk from September 30, 2005 to March 31, 2006.

Controls and Procedures.

(a) Disclosure controls and procedures. An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer (CEO) and Principal Financial Officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures. Our disclosure controls and procedures are the controls and other procedures that we have designed to ensure that information required to be disclosed by us in the reports that we file is recorded, processed, summarized and reported within the time periods specified by the SEC. Our disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosures. Based on the evaluation of our disclosure controls and procedures as described above, our CEO and CFO have concluded that as of March 31, 2006 our disclosure controls and procedures were effective.

(b) Internal controls over financial reporting. During the fiscal quarter ended March 31, 2006, there have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Legal Proceedings.

We are party to various legal proceedings and administrative actions, all of which are of an ordinary or routine nature incidental to our operations. We do not believe that such proceedings and actions should, individually or in the aggregate, have a material adverse effect on our results of operations, financial conditions or cash flows.

Risk Factors.

A restated description of the risk factors associated with our business is set forth below.

Any of the following risks could materially and adversely affect our business, financial condition or results of operation. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us or those we currently view to be immaterial may also materially and adversely affect our business, financial condition or results of operations. Any of the following risks could materially and adversely affect our business, financial condition or results of operations.

If we cannot successfully anticipate or respond to our customers' needs and requirements, our revenues could decline significantly and our operating results could be materially adversely affected.

The business management solutions industry is characterized by technological advances, adoption of evolving industry standards in computer hardware and software technology and new product introductions. Our future success will depend in part on our ability to:

- maintain and enhance our systems and services;
- successfully anticipate or respond to our customers' needs and requirements; and
- develop and market our electronic automotive parts and applications catalog and other products and services in order to meet changing customer needs.

We may not be able to effectively respond to the changing technological requirements of the vertical markets we serve.

To the extent we determine that new software and hardware technologies are required to remain competitive or our customers demand more advanced offerings, the development, acquisition and implementation of these technologies are likely to require significant capital investments by us. Capital may not be available for these purposes and investments in technologies may not result in commercially viable products. In addition, we may not be able to maintain our electronic automotive parts and applications catalog or introduce new versions or releases in a timely manner, and we may not be able to implement these new versions or releases in a manner that will meet the needs of our customers and maintain their proprietary nature. In the event we are not able to respond to changing technological requirements in the vertical markets we serve or our customers' needs, our revenues could decline significantly and our operating results could be materially adversely affected.

If we do not develop new relationships and maintain our existing relationships with key customers and/or well-known market participants, our revenues could decline significantly and our operating results could be materially adversely affected.

We have developed strategic relationships with many well-known market participants in the hardlines and lumber vertical market and the automotive parts aftermarket. For example, we are a preferred or a recommended business management solutions provider for the members of the Ace Hardware Corp. and Do it Best Corp. cooperatives and Aftermarket Auto Parts Alliance, Inc. We believe that our ability to increase revenues depends in part upon maintaining our existing customer and market relationships and developing new relationships. Also, we are currently in discussions with True Value Company regarding a new agreement with them following the prior agreement's expiration on December 31, 2005. We may not be able to renew or replace our existing licensing agreements upon expiration or maintain our market relationships that allow us to market and sell our products effectively. The loss of key relationships, in whole or in part, could materially adversely impact our business.

General Parts, Inc., our largest customer, intends to discontinue the use of certain of our products and, as a result, our revenues in the automotive parts aftermarket could decline significantly and our operating results could be materially adversely affected.

In June 2004, General Parts, our largest customer, informed us of its intention to replace our J-CON parts store system with its own branded product at its company-owned stores and to recommend that its independent affiliated stores also replace the J-CON system. We believe the majority of this transition will be completed by the end of calendar year 2006. J-CON system sales revenues and product support revenues for all of General Parts' company-owned stores and independent affiliated stores related to these systems were approximately \$1.8 million and \$7.5 million, respectively, for fiscal year 2004 and approximately \$0.1 million and \$6.8 million, respectively, for fiscal year 2005. In addition, General Parts licenses one of our electronic automotive parts and applications catalogs and uses our A-DIS warehouse system and our AConneX product. As a result, General Parts accounted for approximately \$21.2 million, or 9.4%, of our total revenues for fiscal year 2004 and \$17.5 million, or 6.6%, of our total revenues for fiscal year 2005. When the current agreements expire, General Parts may not continue as a catalog, A-DIS or AConneX customer at current levels, or be a customer at all in the future.

Approximately 56% of our total revenues is derived from product support and content and data services, which generally are subscription based and not governed by long-term contracts, and therefore, if our current customers do not continue their subscriptions, our revenues could decline significantly and our operating results could be materially adversely affected.

Our product support and content and data services are typically provided on a subscription basis, subject to cancellation on 30 to 60 days' notice without penalty. Accordingly, our customers may not continue to subscribe to our services. As we stop actively improving and selling several of our older systems, we experience reduced rates of customer retention, which has been particularly evident in the automotive parts aftermarket. These developments have resulted in a decrease in our automotive parts aftermarket product support revenues from \$37.7 million for fiscal year 2004 to \$34.5 million for fiscal year 2005, representing a decrease of 8.6%. We expect the decreases in automotive parts aftermarket product support revenues to continue, although we cannot predict with certainty the magnitude and timing of future decreases.

Our success is dependent in part upon the performance and integration of our new chief executive officer and

our ability to attract and retain qualified management personnel to replace members of our senior management who will not stay on following the Transactions. If we are unable to integrate our new chief executive officer or attract and retain qualified management personnel to replace members of our senior management who are terminating their employment, there could be a negative effect on our ability to operate our business.

Our success and ability to implement our business strategy, including integrating acquisitions, depend upon the continued contributions of our management team and others, including our technical employees. At the effective time of the Mergers, Pervez Qureshi, our current chief operating officer, became our chief executive officer and president. Our business and operations are substantially dependent on the performance and integration of our new chief executive officer and president. In addition, soon after the consummation of the Transactions, we will relocate our headquarters to our Livermore, California office. Greg Petersen (our executive vice president and chief financial officer), Chris Speltz (our senior vice president of finance and treasurer) and Richard Rew (our vice president, general counsel and secretary) have indicated that they will be unable to relocate to Livermore. Mr. Petersen, Mr. Speltz and Mr. Rew have executed agreements which will provide for lump sum severance payments and the termination of their employment with us, in the case of Mr. Rew, in late 2006 and, in the case of Mr. Petersen and Mr. Speltz, in early 2007. These agreements became effective upon consummation of the Mergers. We have initiated a search for a new chief financial officer. Our future success also depends on our ability to attract and retain qualified personnel. In addition, we may be required to increase compensation in order to attract and retain qualified personnel. A failure to retain members of our senior management team or attract other qualified personnel could reduce our revenues, increase our expenses and reduce our profitability.

Our Eagle product being developed for the automotive parts aftermarket is a key element to our strategy to re-establish growth in the automotive parts aftermarket, and if this product does not gain market acceptance within that market our future growth and operating results could be adversely affected.

A component of our business strategy is to re-establish growth in the automotive parts aftermarket through the introduction of new systems and services. We are currently developing a version of our Eagle product, a Windows-based system that has versions currently targeted at the hardlines and lumber and wholesale distribution vertical markets, that will target the automotive parts aftermarket. In the event our version of Eagle for the automotive parts aftermarket does not gain acceptance within that market, our future growth and operating results could be adversely affected.

The costs and difficulties of integrating Prophet 21 or future acquisitions could impede our future growth, diminish our competitiveness and materially adversely affect our operations.

In September 2005, we acquired Prophet 21. This acquisition increased the size and geographic scope of our operations. Additionally, we may pursue further acquisitions as part of our expansion strategy or to augment our sales, including additional acquisitions that extend our presence outside of North America. However, we may be unable to identify additional potential acquisition targets, integrate and manage successfully any acquired businesses, including Prophet 21, or achieve a substantial portion of any anticipated cost savings or other anticipated benefits from the Prophet 21 acquisition or other acquisitions in the timeframe we anticipate, or at all. Acquisitions, including Prophet 21, involve numerous risks, such as difficulties in the assimilation of the operations, technologies, services and products of the acquired companies, market acceptance of our integrated product offerings, risks related to potential unknown liabilities associated with acquired businesses, personnel turnover and the diversion of management's attention from other business concerns. Acquisitions of foreign businesses involve numerous additional risks, including difficulty enforcing agreements and collecting receivables under foreign laws and regulations, unexpected political, legal, trade or economic changes or instability, more stringent regulatory requirements or rules relating to labor or the environment, difficulty enforcing our intellectual property rights and increased exposure to foreign exchange rate fluctuations.

Approximately \$584 million of the purchase price paid in connection with the Transactions was allocated to acquired goodwill, which must be assessed for impairment at least annually. In the future, if our business does not yield expected financial results we may be required to take charges to our earnings based on this impairment assessment process, which could materially adversely affect our financial position.

We rely on third-party information for our electronic automotive parts and applications catalog and we are increasingly facing pressure to present our electronic automotive parts and applications catalog in a flexible format, each of which could expose us to a variety of risks, including increased pressure on our pricing.

We are dependent upon third parties to supply information for our electronic automotive parts and applications catalog. Currently, we obtain most of this information without a contract. In the future, more third-party suppliers may require us to enter into a license agreement and/or pay a fee for the use of the information or may make it more generally available to others. For example, an industry association is currently developing a data collection format that would make this information more accessible to consumers and provide it in a more usable format. We rely on this third-party information to continuously update our catalog. In addition, as a result of competitive pressures, we may begin providing our electronic automotive parts and applications catalog in a flexible format which could make it more difficult for us to maintain control over the way information presented in our catalog is used. Any change in the manner or basis on which we currently receive this information or in which it is made available to others who are or who could become competitors could have a material adverse effect on our electronic automotive parts and applications catalog business, which could have a material adverse effect on our business and results of operations.

If our existing customers who operate systems that we no longer actively sell do not upgrade or delay upgrading to our current generation of systems or upgrade to a system not sold by us, our operating results could be materially adversely affected.

Approximately half of our existing customers currently operate systems that we service and maintain but do not actively sell. Although we have developed upgrade paths to newer technologies for substantially all of these older systems, we cannot predict if or when our customers will upgrade to these newer technologies. If our customers do not upgrade or delay the upgrade cycle, or if they upgrade to a competitive system, our systems sales and services revenues and operating results could be materially adversely affected.

We compete with many other technology providers in connection with the sale of our business management solutions to the retail and wholesale distribution market and our failure to effectively compete could erode our market share and/or profit margins.

The retail and wholesale distribution market is highly fragmented and the technology needs in this market are supplied by many competitors. In the hardlines and lumber vertical market we compete primarily with smaller, niche-focused companies, many of which target specific geographic regions. In the automotive parts aftermarket, we compete primarily with smaller software companies that operate regionally or in a specific niche of the market. Many of these competitors price their products and services below our prices which over time may impact our pricing and profit margins. We compete with several companies in the wholesale distribution vertical market that are larger than us, including Infor Global Solutions, Inc. and Intuit Inc. In addition, there are also several niche competitors in the wholesale distribution vertical market. Further, several large software companies have made public announcements regarding the attractiveness of various small and medium-sized business markets and their intention to expand their focus in these markets, including Intuit Inc., Microsoft Corporation, Oracle Corporation, SAP AG and The Sage Group plc. To date, we have rarely competed directly with any of these larger software companies; however, we may do so in the future. Our present and future competitors may have greater financial and other resources than we do and may develop better solutions than those offered by us. If increased spending is required to maintain market share or a rapid technological change in the industry occurs, we may encounter additional competitive pressures which could materially adversely affect our market share and/or profit margin.

Because of the varying sales cycles applicable to our systems sales, our quarterly systems revenues and other operating results can be difficult to predict and may fluctuate substantially.

Our systems revenues have increased from approximately 27% of our total revenues for fiscal year 2002 to approximately 39% of our total revenues for fiscal year 2005. We expect our systems revenues to continue to represent a material percentage of our total revenues. The sales cycle for our systems generally ranges from 30 days to 12 months, and it may be difficult to predict when a sale will close, if at all. It is therefore difficult to predict the quarter in which a particular sale will occur and to plan our expenditures accordingly. The delay or failure to complete systems sales in a particular quarter would reduce our revenues in that quarter and until any such sale is made.

Because of quarterly fluctuations, we believe that quarter-to-quarter comparisons of our operating results are not necessarily meaningful. The delay or failure to complete systems sales in a particular quarter would reduce our revenues in that quarter and until any such sale is made, and increase revenues in any subsequent quarters over which revenues for any such sale would likely be recognized.

Future consolidation among our customers and other businesses in the markets in which we operate may reduce our revenues, which would negatively impact our financial performance.

The markets we serve are highly fragmented. These markets have in the past and are expected to continue to experience consolidation. For example, the hardlines and lumber vertical market has experienced consolidation as retail hardware stores and lumber and building materials dealers try to compete with mass merchandisers such as The Home Depot Inc., Lowe's Companies, Inc. and Menard, Inc. In addition, some of the mass merchandisers and many large distributors have been acquiring smaller chains and independent stores. We may lose customers as a result of this consolidation. Our customers may be acquired by companies with their own proprietary business management systems or by companies that utilize a competitor's system, or our customers may be forced to shut-down due to this competition. Additionally, if original equipment manufacturers successfully increase sales into the automotive parts aftermarket, our customers in this vertical market may lose revenues, which could adversely affect their ability to purchase and maintain our solutions or stay in business.

If we fail to adequately protect our proprietary rights and intellectual property, we may incur unanticipated costs and our competitive position may suffer.

Our success and ability to compete effectively depend in part on our proprietary technology. We have approximately 275 registered copyrights, 90 registered trademarks and four registered patents in the United States. We attempt to protect our proprietary technology through the use of trademarks, patents, copyrights, trade secrets and confidentiality agreements with our employees. We may not be able to adequately protect our technology and competitors may develop similar technology independently.

If we become subject to adverse claims alleging infringement of third-party proprietary rights, we may incur unanticipated costs and our competitive position may suffer.

We are subject to the risk that we are infringing on the proprietary rights of third parties. Although we are not aware of any infringement by our technology on the proprietary rights of others and are not currently subject to any legal proceedings involving claimed infringements by our products, we may be subject to such third-party claims, litigation or indemnity demands and these claims may be successful. If a claim or indemnity demand were to be brought against us, it could result in costly litigation or product shipment delays or force us to stop selling such product or providing such services or to enter into royalty or license agreements that may require substantial royalty or licensing payments.

Our software and information services could contain design defects or errors that could affect our reputation, result in significant costs to us and impair our ability to sell our products.

Our software and information services are highly complex and sophisticated and could, from time to time, contain design defects or errors. Additionally, third-party information supplied to us for inclusion in our electronic automotive parts and applications catalog may not be complete, accurate or timely. These defects or errors may delay the release or shipment of our products or, if the defect or error is discovered only after customers have received the products, that these defects or errors will not result in increased costs, litigation, customer attrition, reduced market acceptance of our systems and services or damage to our reputation.

Interruptions in our connectivity applications could disrupt the services that we provide and materially adversely affect our business and results of operations.

Certain of our customers depend on the efficient and uninterrupted operation of our software connectivity applications, such as AConneX, which are maintained in our data center located in Austin, Texas. These applications are vulnerable to damage or interruption from a variety of sources, including natural disasters, telecommunications failures and

electricity brownouts or blackouts. Our insurance policies may not adequately compensate us for any losses that may occur due to any failures in our connectivity applications. We have concluded it is not cost effective at this time to maintain any secondary “off-site” systems to replicate our connectivity applications, and we do not maintain and are not contractually required to maintain a formal disaster recovery plan with respect to these applications. To the extent that any disruptions result in a loss or damage to our data center and our connectivity applications, it could result in damage to our reputation and lost revenues due to adverse customer reactions.

In the event of a failure in a customer’s computer system installed by us, a claim for damages may be made against us regardless of our responsibility for the failure, which could expose us to liability.

We provide business management solutions that we believe are critical to the operations of our customers’ businesses and provide benefits that may be difficult to quantify. Any failure of a customer’s system installed by us could result in a claim for substantial damages against us, regardless of our responsibility for the failure. Although we attempt to limit our contractual liability for damages resulting from negligent acts, errors, mistakes or omissions in rendering our services, the limitations on liability we include in our agreements may not be enforceable in all cases, and those limitations on liability may not otherwise protect us from liability for damages. Furthermore, our insurance coverage may not be adequate and that coverage may not remain available at acceptable costs. Successful claims brought against us in excess of our insurance coverage could seriously harm our business, prospects, financial condition and results of operations. Even if not successful, large claims against us could result in significant legal and other costs and may be a distraction to our senior management.

Because we sell to small and medium-sized retail and wholesale distribution businesses, prolonged unfavorable general economic and market conditions could negatively impact our sales.

We sell our systems and services to a large number of small and medium-sized businesses. These businesses may be more likely to be impacted by unfavorable general economic and market conditions than larger and better capitalized companies. Furthermore, the businesses of our customers in the hardlines and lumber vertical market are affected by trends in the new housing and home improvements market, and our customers in the wholesale distribution vertical market are affected by trends in general construction and industrial production markets, which could be negatively impacted by an increase in interest rates or a decline in the general economy. Therefore, unfavorable general economic and market conditions in the United States (including as a result of terrorist activities) could have a negative impact on our sales.

The interests of our controlling stockholders or investors, subsequent to the transaction described in Subsequent Events Note 2, may differ from the interests of the holders of the notes.

The Sponsors beneficially own, in the aggregate, over 99% of Lone Star’s common stock, on a fully diluted basis, and an affiliate of Hellman & Friedman LLC beneficially owns the only authorized share of Lone Star’s Series A preferred stock. In addition, a stockholders agreement entered into by Lone Star, Merger Sub and the Sponsors prior to the Mergers will provide affiliates of Hellman & Friedman LLC with the right to vote the shares of Lone Star common stock held by the other Sponsors under certain circumstances. As a result of this ownership of common stock and the share of Series A preferred stock and the terms of the stockholders agreement, these affiliates of Hellman & Friedman LLC is entitled to elect directors with majority voting power with respect to the Lone Star board of directors, to appoint new management and to approve most actions requiring the approval of the holders of outstanding Lone Star voting shares as a single class, including adopting most amendments to the Lone Star certificate of incorporation and approving mergers or sales of all or substantially all of our assets. These affiliates of Hellman & Friedman LLC, through their control of Lone Star, also control us and all of our subsidiaries.

The interests of the Sponsors may differ from our other security holders in material respects. For example, if we encounter financial difficulties or are unable to pay our debts as they mature, the interests of the Sponsors and their affiliates, as equity holders of Lone Star, might conflict with the interests of the holders of our notes. The Sponsors and their affiliates may also have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity investments, even though such transactions might involve risks to the holders of our notes, including the incurrence of additional indebtedness. Additionally, the indentures governing the notes permits us to pay fees, dividends or make other restricted payments under certain circumstances, and the Sponsors may have an interest in our doing so.

The Sponsors and their affiliates are in the business of making investments in companies and may, from time to time in the future, acquire interests in businesses that directly or indirectly compete with certain portions of our business or are suppliers or customers of ours. You should consider that the interests of the Sponsors may differ from yours in material respects.