

Artisoft, Inc. d/b/a Vertical Communications, Inc. and Subsidiaries

Statement of Operations - Q1 2006

Consolidated Worldwide

(\$ 000's)

	Quarterly September 30, 2005 GAAP	Pro Forma Adjustments	Quarterly September 30, 2005 Pro Forma	Three Months Ended September 30, 2004 GAAP & Pro Forma
Total net revenue:	\$ 9,887	\$ (569)	\$ 9,318	\$ 2,934
Cost of sales:	3,645	(481)	3,164	365
Gross profit:	6,242	(88)	6,154	2,569
Operating expenses:				
Sales and marketing	3,754	-	3,754	1,798
Product development	2,610	-	2,610	873
General and administrative	1,359	-	1,359	1,302
Liquidated Damages	550	(550)	-	
Non-Cash Compensation	1,168	(1,168)	-	
Amortization of intangibles	179	(179)	-	
Total operating expenses	<u>9,620</u>	<u>(1,897)</u>	<u>7,723</u>	<u>3,973</u>
Income/(Loss) from operations	(3,378)	1,809	(1,569)	(1,404)
Other income, net	<u>17</u>	<u>-</u>	<u>17</u>	<u>3</u>
Net gain / (loss)	<u>(3,361)</u>	<u>1,809</u>	<u>(1,552)</u>	<u>(1,401)</u>
Income Tax	<u>84</u>	<u>(84)</u>	<u>-</u>	<u>(5)</u>
Net loss after income tax	(3,445)	1,893	(1,552)	(1,406)
Loss applicable to common shareholders	<u>\$ (3,445)</u>	<u>\$ 1,893</u>	<u>\$ (1,552)</u>	<u>(2,874)</u>
Earnings per share	\$ (0.10)		\$ (0.04)	(0.61)
Weighted average shares outstanding (thousands).	34,720		34,720	4,707

Artisoft, Inc. d/b/a Vertical Communications, Inc. and Subsidiaries
 Unaudited Condensed Consolidated Balance Sheets
 (\$ 000's)

	Preliminary September 30, 2005	June 30, 2005
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,738	\$ 4,880
Receivables:		
Trade accounts, net of allowances of \$875 and \$80 at June 2005 and June 2004, respectively	10,843	5,887
Other receivables	211	
Inventories	6,369	1,686
Prepaid expenses	2,882	737
Deferred costs	3,002	2,738
Restricted Cash	1,394	1,145
Total current assets	<u>29,439</u>	<u>17,073</u>
Property and equipment	7,184	6,235
Less accumulated depreciation and amortization	(4,419)	(4,663)
Net property and equipment	<u>2,765</u>	<u>1,571</u>
Goodwill	22,997	13,020
Intangible assets, net of amortization	7,730	3,685
Deferred costs - long term	6,451	7,243
Other assets	146	106
	<u>\$ 69,528</u>	<u>\$ 42,698</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,285	\$ 4,134
Accrued liabilities	6,941	3,473
Deferred revenue	8,117	7,697
Short Term Debt	9,920	-
Customer Deposits	176	176
Total current liabilities	<u>30,439</u>	<u>15,480</u>
Deferred revenue-Long Term	12,196	12,727
Long Term Debt	1,633	-
Deferred tax liability	341	257
Total liabilities	<u>44,609</u>	<u>28,464</u>
Shareholders' equity:		
Common stock, \$.01 par value. Authorized 50,000,000 shares; issued 45,777,309 shares at September 30, 2005 issued 36,612,765 shares at June 30, 2005	458	366
Accumulated other comprehensive income	2	4
Additional paid-in capital	87,849	151,017
Accumulated deficit	(62,773)	(58,585)
Deferred Compensation costs	-	(8,243)
Deferred Toshiba equity cost	(617)	(644)
Less treasury stock, at cost, 0 shares at September 30, 2005 and 2,216,783 shares at June 30, 2005	-	(69,680)
Net shareholders' equity	<u>24,918</u>	<u>14,236</u>
	<u>\$ 69,528</u>	<u>\$ 42,698</u>