INTERNET SOFTWARE CONSORTIUM
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2000

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Stonefield Josephson, Inc.
We have audited the accompanying balance sheet of Internet Software Consortium as of December 31, 2000. This financial statement is the responsibility of the Company’s management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the balance sheet. We believe that our audit of the balance sheet provides a reasonable basis for our opinion.

Because we were not engaged to audit the statements of operations and accumulated deficit and cash flows, we did not extend our auditing procedures to enable us to express an opinion on the Company’s results of operations and cash flows for the year ended December 31, 2000. Accordingly, we express no opinion on them.

In our opinion, the balance sheet referred to in the first paragraph presents fairly, in all material respects, the financial position of Internet Software Consortium as of December 31, 2000, in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As discussed in Note 7 to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

CERTIFIED PUBLIC ACCOUNTANTS

Walnut Creek, California
March 26, 2001
INTERNET SOFTWARE CONSORTIUM

BALANCE SHEET

DECEMBER 31, 2000

ASSETS

Current assets:
   Cash $ 178,060
   Accounts receivable 2,706
   Refundable income taxes 18,900

   Total current assets $ 199,666

Property and equipment, net of accumulated depreciation of $8,922

   15,034

   $ 214,700

LIABILITIES AND ACCUMULATED DEFICIT

Current liabilities:
   Accounts payable and accrued expenses $ 735,885
   Deferred income 1,833
   Loan payable, bank 8,000
   Income taxes payable 1,600

   Total current liabilities $ 747,318

Accumulated deficit

   (532,618)

   $ 214,700

See accompanying independent auditors’ report and notes to financial statements.
INTERNET SOFTWARE CONSORTIUM

STATEMENT OF OPERATIONS AND ACCUMULATED DEFICIT
(UNAUDITED)

YEAR ENDED DECEMBER 31, 2000

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$648,614</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>954,771</td>
</tr>
<tr>
<td>Loss from operations</td>
<td>(306,157)</td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>800</td>
</tr>
<tr>
<td>Net loss</td>
<td>(306,957)</td>
</tr>
<tr>
<td>Accumulated deficit, beginning of year</td>
<td>(225,661)</td>
</tr>
<tr>
<td>Accumulated deficit, end of year</td>
<td>$ (532,618)</td>
</tr>
</tbody>
</table>

See accompanying independent auditors' report and notes to financial statements.
INTERNET SOFTWARE CONSORTIUM

STATEMENT OF CASH FLOWS
(UNAUDITED)

YEAR ENDED DECEMBER 31, 2000

Cash flows provided by (used for) operating activities:
Net loss $ (306,957)

Adjustments to reconcile net loss to net cash provided by operating activities:
Depreciation $ 4,722

Changes in assets and liabilities:
(Increase) decrease in assets:
Accounts receivable 107,000

Increase (decrease) in liabilities:
Accounts payable and accrued expenses 660,682
Deferred income (368,645)
Income taxes payable 800

Total adjustments 404,559

Net cash provided by operating activities 97,602

Cash flows provided by financing activities:
Net borrowings under loan payable, bank 8,000

Net increase in cash 105,602

Cash, beginning of year 72,458

Cash, end of year $ 178,060

Supplemental disclosure of cash flow information:
Interest paid $ 944

See accompanying independent auditors’ report and notes to financial statements.
(1) Summary of Significant Accounting Policies:

Business Activity:

Internet Software Consortium (the Company) is organized as a California non-profit corporation to provide support for the development of freely available computer software programs, which implement core Internet protocols and standards. As discussed in Note 6, the Company's non-profit election was denied by the Internal Revenue Service.

Use of Estimates:

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash:

Cash equivalents

For purposes of the statement of cash flows, cash equivalents include all highly liquid debt instruments with original maturities of three months or less, which are not securing any corporate obligations.

Credit concentration

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Property and Equipment:

Property and equipment are valued at cost. Depreciation is being provided by use of the straight-line method over the estimated useful lives of the assets.

Revenue Recognition and Software Development Costs:

Development revenue associated with contracts is recognized based on the percentage-of-completion method with progress-to-completion based on management's estimates of total costs to date compared to total costs anticipated. Other development and support revenue is recognized ratably over the term of the agreement. Product revenue is recognized upon product delivery.

Software development costs are incurred through sub-contractors. Because the software is freely available in the public domain, amounts are not capitalized and are expensed as incurred.

See accompanying independent auditors' report.
(1) **Summary of Significant Accounting Policies (continued):**

**Income Taxes:**

The Company’s non-profit election was denied, and the Company has filed income taxes as a C corporation. Deferred income taxes are provided for temporary differences between financial and taxable income. The temporary differences result primarily from differences between accrual basis financial reporting and cash basis income tax reporting.

(2) **Loan Payable, Bank:**

The Company has a bank credit agreement for an amount not to exceed $50,000, which is intended to be used for working capital needs and provide overdraft protection. The agreement is renewable annually, and borrowings under this agreement bear interest at the bank’s reference rate plus 2.625%. At December 31, 2000, $8,000 was outstanding under this back credit agreement.

(3) **Income Taxes (Unaudited):**

The provision for income taxes includes the currently payable minimum state tax of $800. The effective tax rate differs from statutory rates primarily due to the valuation allowance provided for net deferred tax assets. This valuation allowance increased $72,500 during 2000.

The Company also has federal and state net operating loss carry forwards of approximately $19,700 and $2,600, respectively, which begin expiring in 2019 and 2004, respectively.

The net deferred taxes are as follows:

<table>
<thead>
<tr>
<th>Deferred tax assets:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>$175,400</td>
</tr>
<tr>
<td>Net operating loss carryforwards</td>
<td>$3,200</td>
</tr>
<tr>
<td>Less valuation allowance</td>
<td>$178,600</td>
</tr>
</tbody>
</table>

(4) **Major Customers (Unaudited):**

Revenue earned from two of the Company’s customers totalled approximately 35% for the year ended December 31, 2000.

See accompanying independent auditors’ report.
(5) Related Party Transactions (Unaudited):

The Company engages a sub-contractor, which is owned and managed by certain officers of the Company, to develop the software that is made freely available to the public. Purchases from this sub-contractor approximated $809,200 for 2000 and accounts payable to this sub-contractor totaled $729,892 at December 31, 2000.

In addition, the Company leases its storage space from an officer of the Company on a month-to-month basis. Rent paid to this officer approximated $7,200 for 2000.

(6) Contingency:

The Company was incorporated in 1997 with the intention of qualifying as a non-profit organization for the benefit of the public interest. This request to qualify was denied in November 2000. Should the Company decide to reorganized as a for-profit corporation, they may be required to reimburse the public interest for assets created or profits generated by contributing certain assets to a properly qualified non-profit organization. The amount of this contribution cannot be determined at this time. The Company has generated a cumulative net operating loss since inception and will contend that the assets created are already a part of the public domain and that no value can be ascribed.

(7) Going Concern Uncertainty:

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has suffered recurring losses from operations and has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern. In addition, some customers have indicated a desire to work directly with the sub-contractor and the Company has been financially unable to maintain adequate general liability insurance. Management is making efforts to raise additional revenue for 2001. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

See accompanying independent auditors’ report.