

SumTotal Systems, Inc.
Condensed Consolidated Balance Sheets
(in thousands)
(Unaudited)

	June 30, 2008	December 31, 2007
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 45,511	\$ 19,182
Short-term investments	5,069	30,143
Accounts receivable, net	25,124	26,734
Prepaid expenses and other current assets	4,108	4,482
Total current assets	79,812	80,541
Property and equipment, net	7,180	7,901
Goodwill	68,461	68,461
Intangible assets, net	9,856	12,924
Other assets	1,359	1,213
Total assets	\$ 166,668	\$ 171,040
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Accounts payable	\$ 1,699	\$ 2,326
Accrued compensation and benefits	8,097	8,630
Other accrued liabilities	4,223	3,759
Restructuring accrual	170	100
Deferred revenue	33,890	35,898
Notes payable	5,929	6,157
Total current liabilities	54,008	56,870
Non-current liabilities:		
Other accrued liabilities, non-current	158	193
Deferred revenue, non-current	1,059	858
Notes payable, non-current	2,187	4,661
Total liabilities	57,412	62,582
Commitments and contingencies	-	-
Stockholders' equity	109,256	108,458
Total liabilities and stockholders' equity	\$ 166,668	\$ 171,040

SumTotal Systems, Inc.
GAAP Condensed Consolidated Statements of Operations
(in thousands, except per share amounts)
(Unaudited)

	Three-Months Ended June 30,		Six-Months Ended June 30,	
	2008	2007	2008	2007
Revenue:				
Subscriptions and support	\$ 17,361	\$ 15,104	\$ 34,988	\$ 29,572
Services	8,735	7,979	18,407	16,212
License	5,849	7,143	14,542	13,492
Total revenue	<u>31,945</u>	<u>30,226</u>	<u>67,937</u>	<u>59,276</u>
Cost of revenue:				
Subscriptions and support	6,330	5,166	12,291	9,912
Services	6,205	5,636	13,096	11,226
License	54	200	118	292
Amortization of intangible assets	1,385	2,051	3,069	4,301
Total cost of revenue	<u>13,974</u>	<u>13,053</u>	<u>28,574</u>	<u>25,731</u>
Gross margin	<u>17,971</u>	<u>17,173</u>	<u>39,363</u>	<u>33,545</u>
Operating expenses:				
Research and development	5,565	5,258	11,395	10,297
Sales and marketing	8,617	8,954	17,345	16,857
General and administrative	4,885	4,414	10,061	9,420
Restructuring charge	37	-	122	-
Total operating expenses	<u>19,104</u>	<u>18,626</u>	<u>38,923</u>	<u>36,574</u>
Income (loss) from operations	(1,133)	(1,453)	440	(3,029)
Interest expense	(178)	(364)	(400)	(743)
Interest income	344	379	837	541
Other income (expense), net	(17)	(34)	4	(43)
Income (loss) before provision for income taxes	(984)	(1,472)	881	(3,274)
Provision for income taxes	5	47	368	71
Net income (loss)	<u>\$ (989)</u>	<u>\$ (1,519)</u>	<u>\$ 513</u>	<u>\$ (3,345)</u>
Net income (loss) per share, basic	<u>\$ (0.03)</u>	<u>\$ (0.05)</u>	<u>\$ 0.02</u>	<u>\$ (0.12)</u>
Net income (loss) per share, diluted	<u>\$ (0.03)</u>	<u>\$ (0.05)</u>	<u>\$ 0.02</u>	<u>\$ (0.12)</u>
Weighted average common shares outstanding, basic	<u>31,937</u>	<u>29,609</u>	<u>32,057</u>	<u>28,224</u>
Weighted average common shares outstanding, diluted	<u>31,937</u>	<u>29,609</u>	<u>32,796</u>	<u>28,224</u>

SumTotal Systems, Inc.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

	Six-Months Ended	
	June 30,	
	2008	2007
Cash flows from operating activities:		
Net income (loss)	\$ 513	\$ (3,345)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,379	1,843
Amortization of intangible assets	3,069	4,301
Provision for (recovery of) sales returns and doubtful accounts	51	(85)
Accretion of interest on short-term investments	(158)	(191)
Amortization of discount on notes payable	70	137
Stock-based compensation	2,476	2,141
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	1,483	4,561
Prepaid expenses and other current assets	390	(744)
Other assets	(120)	50
Accounts payable	(618)	(838)
Accrued compensation and benefits	(558)	(1,713)
Other accrued liabilities	415	(1,423)
Restructuring accrual	70	(807)
Deferred revenue	(1,746)	5,117
Net cash provided by operating activities	<u>7,716</u>	<u>9,004</u>
Cash flows from investing activities:		
Purchases of property and equipment	(1,813)	(3,306)
Purchases of short-term investments	(6,323)	(13,885)
Sales/maturities of short-term investments	31,555	5,101
Release of restricted cash	-	23
Net cash provided by (used in) investing activities	<u>23,419</u>	<u>(12,067)</u>
Cash flows from financing activities:		
Net proceeds from the issuance of common stock pursuant to registered direct offering	-	32,710
Repayment of credit facility	(2,188)	(2,187)
Payment of notes payable	(584)	(584)
Purchase of treasury stock	(2,336)	-
Net proceeds from the issuance of common stock pursuant to SumTotal Systems' Employee Stock Purchase Plan and exercises of common stock options	426	2,063
Net cash provided by (used in) financing activities	<u>(4,682)</u>	<u>32,002</u>
Effect of foreign exchange rate changes on cash and cash equivalents	(124)	(151)
Net increase in cash and cash equivalents	26,329	28,788
Cash and cash equivalents at beginning of period	<u>19,182</u>	<u>10,176</u>
Cash and cash equivalents at end of period	<u>\$ 45,511</u>	<u>\$ 38,964</u>
Supplemental disclosure of cash flow information		
Interest paid	\$ 360	\$ 653
Taxes paid	\$ 265	\$ 1

Use of Non-GAAP Financial Measures

In managing its business financial performance and establishing internal financial plans and targets, the Company uses non-GAAP financial measures. Management believes that certain non-GAAP financial measures provide greater transparency in managing its operations and business. The Company has presented these non-GAAP financial measures as supplemental information to allow investors to see how management views the operating performance of the Company and how it communicates the performance internally. The Company has historically reported similar non-GAAP financial measures to its investors and believes that the inclusion of comparative numbers provides consistency in its financial reporting. This non-GAAP information is subject to material limitations and is not intended to be used in isolation or instead of results prepared in accordance with GAAP but rather in addition to the GAAP results. Also, the non-GAAP information prepared by the Company is not necessarily comparable to non-GAAP information provided by other companies.

A reconciliation of the non-GAAP measures to GAAP is included in the financial tables contained in this press release. Investors are encouraged to review the reconciliation of the non-GAAP financial measures to the most directly comparable GAAP financial measures as provided herein.

The adjustments and the basis for excluding them are as follows:

Deferred Revenue Write-Down

The Company excludes the impact of the write-down of acquired deferred revenue to fair value relating to its acquisitions of Pathlore Software Corporation and MindSolve Technologies, Inc. This has the effect of increasing licenses and subscriptions and support revenue to the amounts that would have been recorded in the absence of the purchase accounting adjustments required by GAAP. This is done to provide management with better visibility on the contractual revenue run-rate, subscriptions and support renewal rates, and the operating profitability of the business.

Amortization of Intangible Assets

The Company has incurred expenses for amortization of intangible assets in the cost of sales numbers reported in its GAAP financial results. These expenses relate to various acquisitions of companies and technology. Management excludes these expenses when evaluating its operating performance because it believes that it provides for better comparability between periods and provides results that are more reflective of the operating performance of the business.

Stock-Based Compensation

The Company has incurred stock-based compensation as required by FAS 123R. The Company excludes these expenses from services and subscriptions and support cost of revenue, research and development expenses, sales and marketing expenses, and general and administrative expenses because it believes that the information is not relevant in managing its operations. Excluding these expenses also provides for results that better reflect the economic cash flows of the operations.

Restructuring Charges

The Company has incurred expenses for restructuring activities and accounted for them in accordance with FAS 146. These include but are not limited to employee severance and leasehold termination costs. Because of the one-time nature of these charges, management excludes them in evaluating its operating performance.

Income Taxes Expense Related to Acquired Net Operating Losses

As a result of prior acquisitions, the Company has acquired net operating loss carryforwards (NOLs) to which no value was allocated as prescribed by purchase accounting. Use of these NOLs during fiscal year 2008 resulted in a non-cash charge to provision for income taxes. Consistent with its treatment of other non-cash acquisition expenses, the Company has excluded these expenses when evaluating its operating performance.

Income Taxes

Other than the NOLs, these adjustments are not tax effected as management believes that given the Company's historical operating losses and other tax considerations, they would not result in an additional tax charge to the income statement.

SumTotal Systems, Inc.
Non-GAAP to GAAP Reconciliation
(in thousands, except per share amounts)
(Unaudited)

	<u>Three-Months Ended June 30,</u>		<u>Six-Months Ended June 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Non-GAAP revenue	\$ 32,040	\$ 30,547	\$ 68,136	\$ 60,037
Deferred revenue write-down: Subscriptions and support	(95)	(299)	(199)	(709)
Deferred revenue write-down: License	-	(22)	-	(52)
GAAP revenue	<u>\$ 31,945</u>	<u>\$ 30,226</u>	<u>\$ 67,937</u>	<u>\$ 59,276</u>
Non-GAAP net income	\$ 1,841	\$ 1,942	\$ 6,435	\$ 3,858
Deferred revenue write-down: Subscriptions and support	(95)	(299)	(199)	(709)
Deferred revenue write-down: License	-	(22)	-	(52)
Amortization of intangible assets	(1,385)	(2,051)	(3,069)	(4,301)
Stock-based compensation: Subscriptions and support	(72)	(60)	(142)	(120)
Stock-based compensation: Services	(143)	(128)	(293)	(265)
Stock-based compensation: Research and development	(193)	(141)	(368)	(279)
Stock-based compensation: Sales and marketing	(367)	(257)	(722)	(532)
Stock-based compensation: General and administrative	(482)	(503)	(951)	(945)
Restructuring charge	(37)	-	(122)	-
Income taxes expense related to acquired net operating losses	(56)	-	(56)	-
GAAP net income (loss)	<u>\$ (989)</u>	<u>\$ (1,519)</u>	<u>\$ 513</u>	<u>\$ (3,345)</u>
Non-GAAP net income per share, diluted	\$ 0.06	\$ 0.06	\$ 0.20	\$ 0.13
Impact of dilution	-	0.01	-	0.01
Non-GAAP net income per share, basic	<u>\$ 0.06</u>	<u>\$ 0.07</u>	<u>\$ 0.20</u>	<u>\$ 0.14</u>
Deferred revenue write-off	(0.01)	(0.01)	(0.01)	(0.03)
Amortization of intangible assets	(0.04)	(0.07)	(0.09)	(0.15)
Stock-based compensation	(0.04)	(0.04)	(0.08)	(0.08)
GAAP net income (loss) per share, basic and diluted	<u>\$ (0.03)</u>	<u>\$ (0.05)</u>	<u>\$ 0.02</u>	<u>\$ (0.12)</u>
Weighted average common shares outstanding, basic, GAAP and non-GAAP	<u>31,937</u>	<u>29,609</u>	<u>32,057</u>	<u>28,224</u>
Weighted average common shares outstanding, diluted, non-GAAP	32,467	31,356	32,796	29,718
Anti-dilutive impact in net loss periods	(530)	(1,747)	-	(1,494)
Weighted average common shares outstanding, diluted, GAAP	<u>31,937</u>	<u>29,609</u>	<u>32,796</u>	<u>28,224</u>