

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

	<b>December 31, 2005</b>	<b>December 31, 2004</b>
<u>Assets</u>		
Current assets:		
Cash, cash equivalents and restricted cash	\$ 18,489	\$ 25,508
Short term investments	657	9,210
Accounts receivable, net	25,207	18,531
Prepaid expenses and other current assets	2,864	1,781
Total current assets	47,217	55,030
Property and equipment, net	4,210	2,472
Goodwill	62,306	27,659
Intangible assets, net	25,705	9,491
Other assets	1,489	1,140
Total assets	\$ 140,927	\$ 95,792
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Accounts payable	2,845	3,334
Accrued compensation and benefits	5,509	5,148
Other accrued liabilities	4,048	3,403
Restructuring accrual	1,660	506
Deferred revenue	26,354	14,749
Notes payable	4,877	-
Total current liabilities	45,293	27,140
Non-current liabilities		
Other accrued liabilities, non-current	176	-
Restructuring accrual, non-current	979	-
Deferred revenue, non-current	369	373
Notes payable, non-current	13,125	-
Total liabilities	59,942	27,513
Commitments and contingencies		
	-	-
Stockholders' equity		
Total liabilities and stockholders' equity	\$ 140,927	\$ 95,792

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

	Three-Months Ended December 31,		Year Ended December 31,	
	2005	2004	2005	2004
Revenue:				
License	\$ 7,388	\$ 8,614	\$ 24,674	\$ 22,376
Service and maintenance	16,546	10,114	50,296	32,828
Total revenue	<u>23,934</u>	<u>18,728</u>	<u>74,970</u>	<u>55,204</u>
Cost of revenue:				
License	107	1,244	1,179	1,616
Service and maintenance	7,582	4,899	22,950	17,269
Amortization of intangible assets	1,475	1,386	4,316	4,794
Total cost of revenue	<u>9,164</u>	<u>7,529</u>	<u>28,445</u>	<u>23,679</u>
Gross margin	<u>14,770</u>	<u>11,199</u>	<u>46,525</u>	<u>31,525</u>
Operating expenses:				
Research and development	3,460	3,366	12,357	11,558
Sales and marketing	7,680	6,922	25,480	22,489
General and administrative	5,395	3,061	16,294	10,944
Restructuring charge	316	-	316	1,137
In-process research and development	-	-	-	1,326
Total operating expenses	<u>16,851</u>	<u>13,349</u>	<u>54,447</u>	<u>47,454</u>
Loss from operations	(2,081)	(2,150)	(7,922)	(15,929)
Interest expense	(389)	-	(394)	(121)
Interest income	119	128	701	331
Other income (expense), net	(138)	163	(631)	(78)
Equity in losses of affiliate	-	-	-	(169)
Loss before provision for income taxes	(2,489)	(1,859)	(8,246)	(15,966)
Provision for income taxes	5	37	95	66
Net loss	<u>\$ (2,494)</u>	<u>\$ (1,896)</u>	<u>\$ (8,341)</u>	<u>\$ (16,032)</u>
Net loss per share, basic and diluted	<u>\$ (0.10)</u>	<u>\$ (0.09)</u>	<u>\$ (0.38)</u>	<u>\$ (0.87)</u>
Weighted average common shares outstanding, basic and diluted	<u>25,197</u>	<u>20,640</u>	<u>22,038</u>	<u>18,367</u>

**SumTotal Systems, Inc.**  
**Reconciliation of GAAP to Non-GAAP Condensed Consolidated Statements of Operations**  
(in thousands, except per share amounts)  
(Unaudited and Preliminary)

	Three-Months Ended December 31, 2005			Three-Months Ended December 31, 2004		
	GAAP	Adjustments	Non-GAAP	GAAP	Adjustments	Non-GAAP
Revenue:						
License	\$ 7,388	\$ 1,354	A \$ 8,742	\$ 8,614	\$ 273	A \$ 8,887
Service and maintenance	16,546	1,649	A 18,195	10,114	473	A 10,587
Total revenue	<u>23,934</u>	<u>3,003</u>	<u>26,937</u>	<u>18,728</u>	<u>746</u>	<u>19,474</u>
Cost of revenue:						
License	107	6	A 113	1,244	19	A 1,263
Service and maintenance	7,582	(21)	B 7,561	4,899	(15)	B 4,884
Amortization of intangible assets	1,475	(1,475)	C -	1,386	(1,386)	C -
Total cost of revenue	<u>9,164</u>	<u>(1,490)</u>	<u>7,674</u>	<u>7,529</u>	<u>(1,382)</u>	<u>6,147</u>
Gross margin	<u>14,770</u>	<u>4,493</u>	<u>19,263</u>	<u>11,199</u>	<u>2,128</u>	<u>13,327</u>
Operating expenses:						
Research and development	3,460	(7)	B 3,453	3,366	(66)	B 3,300
Sales and marketing	7,680	(49)	B 7,631	6,922	(114)	B 6,808
General and administrative	5,395	(86)	B 5,309	3,061	(110)	B 2,951
Restructuring charge	316	(316)	D -	-	-	-
Total operating expenses	<u>16,851</u>	<u>(458)</u>	<u>16,393</u>	<u>13,349</u>	<u>(290)</u>	<u>13,059</u>
Loss from operations	(2,081)	4,951	2,870	(2,150)	2,418	268
Interest expense	(389)	-	(389)	-	-	-
Interest income	119	-	119	128	-	128
Other income (expense), net	(138)	-	(138)	163	-	163
Income (loss) before provision for income taxes	(2,489)	4,951	2,462	(1,859)	2,418	559
Provision (credit) for income taxes	5	-	5	37	-	37
Net income (loss)	<u>\$ (2,494)</u>	<u>\$ 4,951</u>	<u>\$ 2,457</u>	<u>\$ (1,896)</u>	<u>\$ 2,418</u>	<u>\$ 522</u>
Net income (loss) per share, basic	<u>\$ (0.10)</u>		<u>\$ 0.10</u>	<u>\$ (0.09)</u>		<u>\$ 0.03</u>
Net income (loss) per share, diluted	<u>\$ (0.10)</u>		<u>\$ 0.10</u>	<u>\$ (0.09)</u>		<u>\$ 0.02</u>
Weighted average common shares outstanding, basic	<u>25,197</u>		<u>25,197</u>	<u>20,640</u>		<u>20,640</u>
Weighted average common shares outstanding, diluted	<u>25,197</u>		<u>25,564</u>	<u>20,640</u>		<u>21,667</u>

**Footnotes:**

(1) SumTotal Systems includes these non-GAAP financial measures because we believe these measures are useful to investors in that they allow for greater transparency to certain line items in our financial statements. We have historically reported similar non-GAAP financial measures to our investors and believe that the inclusion of comparative numbers provides consistency in our financial reporting. Investors are encouraged to review the reconciliation of the non-GAAP financial measures to the most directly comparable GAAP financial measures as provided herein.

(2) SumTotal Systems' management refers to these non-GAAP financial measures, such as non-GAAP operating margins and net income, in making operating decisions because the measures provide meaningful supplemental information regarding our operational performance and our ability to invest in research and development and fund acquisitions and capital expenditures. In addition, these non-GAAP financial measures facilitate management's internal comparisons to our historical operating results and comparisons to competitors' operating results. Investors are encouraged to review the reconciliation of the non-GAAP financial measures to the most directly comparable GAAP financial measures as provided herein.

**A** To include Pathlore and Docent, Inc.'s deferred revenue and costs that were excluded as a result of adjustments to fair value as part of acquisition accounting

**B** To exclude amortization of deferred stock-based compensation.

**C** To exclude amortization of acquired intangible assets.

**D** To exclude charges relating to restructuring.

**SumTotal Systems, Inc.**  
**Reconciliation of GAAP to Non-GAAP Condensed Consolidated Statements of Operations**  
(in thousands, except per share amounts)  
(Unaudited and Preliminary)

	Year Ended December 31, 2005			Year Ended December 31, 2004			
	GAAP	Adjustments	Non-GAAP	GAAP	Adjustments	Docent Preacquisition (E)	Non-GAAP
<b>Revenue:</b>							
License	\$ 24,674	\$ 1,548	A \$ 26,222	\$ 22,376	\$ 1,907	A \$ 2,002	\$ 26,285
Service and maintenance	50,296	1,887	A 52,183	32,828	2,715	A 3,727	39,270
Total revenue	<u>74,970</u>	<u>3,435</u>	<u>78,405</u>	<u>55,204</u>	<u>4,622</u>	<u>5,729</u>	<u>65,555</u>
<b>Cost of revenue:</b>							
License	1,179	13	A 1,192	1,616	99	A 161	1,876
Service and maintenance	22,950	(100)	B 22,850	17,269	(51)	B 2,676	19,894
Amortization of intangible assets	4,316	(4,316)	C -	4,794	(4,794)	C -	-
Total cost of revenue	<u>28,445</u>	<u>(4,403)</u>	<u>24,042</u>	<u>23,679</u>	<u>(4,746)</u>	<u>2,837</u>	<u>21,770</u>
Gross margin	<u>46,525</u>	<u>7,838</u>	<u>54,363</u>	<u>31,525</u>	<u>9,368</u>	<u>2,892</u>	<u>43,785</u>
<b>Operating expenses:</b>							
Research and development	12,357	(117)	B 12,240	11,558	(148)	B 1,518	12,928
Sales and marketing	25,480	(282)	B 25,198	22,489	(557)	B 2,849	24,781
General and administrative	16,294	(376)	B 15,918	10,944	(668)	B 921	11,197
Restructuring charge	316	(316)	D -	1,137	(1,137)	D -	-
In-Process research and development	-	-	-	1,326	(1,326)	D -	-
Total operating expenses	<u>54,447</u>	<u>(1,091)</u>	<u>53,356</u>	<u>47,454</u>	<u>(3,836)</u>	<u>5,288</u>	<u>48,906</u>
Loss from operations	(7,922)	8,929	1,007	(15,929)	13,204	(2,396)	(5,121)
Interest expense	(394)	-	(394)	(121)	-	(3)	(124)
Interest income	701	-	701	331	-	51	382
Other income (expense), net	(631)	-	(631)	(78)	-	(82)	(160)
Equity in losses of an affiliate	-	-	-	(169)	-	-	(169)
Income (loss) before provision for income taxes	(8,246)	8,929	683	(15,966)	13,204	(2,430)	(5,192)
Provision (credit) for income taxes	95	-	95	66	-	34	100
Net income (loss)	<u>\$ (8,341)</u>	<u>\$ 8,929</u>	<u>\$ 588</u>	<u>\$ (16,032)</u>	<u>\$ 13,204</u>	<u>\$ (2,464)</u>	<u>\$ (5,292)</u>
Net income (loss) per share, basic	<u>\$ (0.38)</u>		<u>\$ 0.03</u>	<u>\$ (0.87)</u>			<u>\$ (0.29)</u>
Net income (loss) per share, diluted	<u>\$ (0.38)</u>		<u>\$ 0.03</u>	<u>\$ (0.87)</u>			<u>\$ (0.29)</u>
Weighted average common shares outstanding, basic	<u>22,038</u>		<u>22,038</u>	<u>18,367</u>			<u>18,367</u>
Weighted average common shares outstanding, diluted	<u>22,038</u>		<u>22,428</u>	<u>18,367</u>			<u>18,367</u>

**Footnotes:**

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- A** To include Pathlore and Docent, Inc.'s deferred revenue and costs that were excluded as a result of adjustments to fair value as part of acquisition accounting
- B** To exclude amortization of deferred stock-based compensation.
- C** To exclude amortization of acquired intangible assets.
- D** To exclude charges relating to restructuring and write-off of In-process R & D.
- E** To include Docent results for the period January 1, 2004 to March 18, 2004