INVERNESS MEDICAL INNOVATIONS INC
Form 8-K
December 13, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **December 8, 2006**

INVERNESS MEDICAL INNOVATIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**1-16789**	**04-3565120**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

51 Sawyer Road, Suite 200 Waltham, Massachusetts	**02453**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code **(781) 647-3900**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers

Effective Friday, December 8, 2006, David Teitel, 43, was appointed as Chief Financial Officer of the Company upon the resignation of Christopher Lindop the same day. Mr. Teitel has over 20 years of public and private company finance experience including nine (9) years of audit experience at Arthur Andersen. From 2001 to 2003, Mr. Teitel was Chief Financial Officer for Curaspan, Inc., a start-up software and service provider to healthcare providers. Mr. Teitel joined the Company in December 2003 as Director of Finance Operations and assumed the title Vice President, Finance in December 2004.

Also as of December 8, 2006, Jon Russell has assumed the position of Vice President, Finance. Mr. Russell will oversee financial systems management and integration and will share responsibility for external communications with the CEO. Previously, Mr. Russell was CFO of Wampole Laboratories, LLC, a wholly-owned subsidiary of the Company (Wampole), and guided the successful improvement of Wampole s financial performance. He has over 17 years of experience in finance and operations management.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

	INVERNESS MEDICAL INNOVATIONS, INC.	
Date: December 13, 2006	By:	/s/ Jay McNamara
		Jay McNamara
		Senior Counsel Corporate & Finance

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280,932 110,446 170,486

The amount of amortization expense for 2003 related to property, plant and equipment totalled $54,862.

5 Capitalized website development costs

	Cost $	Accumulated Amortization $	Net $
Web-based portal	1,998,558	1,600,541	398,017

In July 2003, the company began development on its next-generation web-based portal. At that time, the remaining useful life of the current web-based portal was determined to be 12 months and the website development costs were written down by $1,551,032.

The amount of website development costs capitalized during the year related exclusively to the next-generation web-based portal totalled $52,598.

The amount of amortization expense for 2003 related to the current web-based portal totalled $510,089. No amounts were amortized during the year for the next-generation web-based portal since this amount was not available for use.

Based on the remaining useful life of the current web-based portal, the asset will be fully amortized during 2004. The amount of amortization expense anticipated for 2004 for the current web-based portal is $345,419.

6 Bank indebtedness

In November 2001, the company entered into a demand revolving credit facility of CA$2,500,000 with Bank of Montreal, its parent company (notes 10 and 14(b)(i)), and a demand reducing credit facility of CA$625,000, both of which were collateralized by a general security agreement covering all assets. The credit facilities also contained certain restrictions and covenants.

Both facilities bore interest at the Canadian prime lending rate. The effective interest rate for the year ended October 31, 2003 was 4.70%.

7 Capital stock

a) Authorized

An unlimited number of voting, common shares, par value of $0.01 per share

An unlimited number of non-voting, common shares, par value of $0.01 per share

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dealerAccess Inc.
Notes to Consolidated Financial Statements (Continued)

b) Issued and outstanding

	Number of Shares	$
Common shares (note 14(c))		
Balance Beginning of year	5,182	52
Shares issued during the year		
Shares redeemed during the year		
Balance End of year	5,182	52

8 Additional paid-in capital

During the year, the company received additional funding for working capital purposes totalling $1,499,112 from its parent company, Bank of Montreal. No additional shares were issued to the parent company and, accordingly, the amount was accounted for as additional paid-in capital.

9 Stock-based compensation plan

On March 28, 2001, the company granted options to certain executives to purchase 92,361 non-voting, common shares which were exercisable at CA$25.00 per share at various dates ending in March 2008.

During the year ended October 31, 2002, the company granted options to certain executives to purchase 55,000 non-voting, common shares, which were exercisable at CA$3.25 per share at various dates ending in August 2009.

During the year ended October 31, 2002, 71,363 options expired or were cancelled.

In January 2003, the company cancelled 20,998 options. In addition, in October 2003, the company agreed to repurchase the remaining 55,000 options for $35,425 and the stock option plan was terminated.

Stock options to employees are summarized as follows:

	Number of Options	Number of Options Exercisable	Weighted Average Exercise Price CA$
Granted to employees			
Balance at October 31, 2002	75,998	6,929	9.26
Cancelled during the year	(55,000)		3.25
Expired during the year	(6,929)	(6,929)	25.00
Forfeited during the year	(14,069)		25.00
Balance at October 31, 2003			

For disclosure purposes, the fair value of each stock option granted to employees was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for stock options granted in prior years: $nil annual dividends; expected volatility of 40% in 2002 (2001 minimal); risk-free interest rate of 4.80% in 2002 (2001 5.10%) and expected life of three years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the company s stock option plan has characteristics significantly different from those of traded options, and because a change in the subjective input assumptions can materially affect the fair value estimate, the existing

dealerAccess Inc.
Notes to Consolidated Financial Statements (Continued)

models do not necessarily provide a reliable single measure of the fair value of the company s employee stock options.

The following table illustrates the effect on loss for the year as if the company had applied the fair value recognition provisions of SFAS No. 123 to the stock-based employee compensation:

	$
Loss for the year, as reported	(4,213,192)
Add: Stock-based employee compensation expense included in reported loss for the year	35,425
Deduct: Stock-based employee compensation expense determined under fair value based method for all awards	(25,844)
Pro forma loss for the year	(4,203,611)

10 Related party transactions

The company provides web-based portal and related services to its parent company, Bank of Montreal ($689,053), and its affiliate, financiaLinx Corporation ($1,102,462).

Bank of Montreal has provided the demand revolving credit facility (note 6), resulting in interest paid to Bank of Montreal ($81,209). In addition, beginning in April 2003, the company became an additional insured under Bank of Montreal s general insurance policy at no cost. Bank of Montreal has also provided management services to the company ($64,689).

financiaLinx Corporation has provided the company with vehicle rentals, rental of furnished offices and related office services, and rental of computer hardware and other electronic equipment ($198,017).

The transactions with related parties are considered to have taken place in the normal course of business and, therefore, have been measured at amounts representing arm s-length transactions.

The amounts due from related parties as of October 31, 2003 are as follows:

	$
financiaLinx Corporation	25,487
Bank of Montreal	87,957
	113,444

The amounts due to related parties as of October 31, 2003 are as follows:

	$
financiaLinx Corporation	43,403
Bank of Montreal	45,404
	88,807

The amounts due to and from related parties are due on demand and are unsecured and non-interest-bearing.

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dealerAccess Inc.
Notes to Consolidated Financial Statements (Continued)

11 Income taxes

The tax effect of significant temporary items comprising the company s deferred income taxes as of October 31, 2003 is as follows:

	$
Long-term deferred income tax assets	
Operating loss carry-forwards	2,018,000
Research and development costs pool carry-forwards	532,000
Investment tax credit carry-forwards net of related income tax liability	294,000
Excess of income tax basis over book value of property, plant and equipment and software development costs	649,000
	3,493,000
Long-term deferred income tax liabilities	
Gains not currently taxable	(58,000)
Net long-term deferred income tax assets	3,435,000
Less: Valuation allowance	3,477,000
Deferred income taxes	(42,000)

The provision for income taxes included in the consolidated statement of operations differs from the statutory income tax rate as follows:

	$
Loss before income taxes	(4,164,368)
Statutory income tax rate	38.58%
Income tax recovery based on statutory income tax rate	(1,606,613)
Large corporations tax	5,122
Investments tax credits	(9,890)
Tax effect of non-deductible and other items	10,211
Tax effect of jurisdictional rate differences	358,789
Change in valuation allowance	1,291,205
	48,824
Current	6,824
Deferred	42,000
Provision for income taxes	48,824

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dealerAccess Inc.
Notes to Consolidated Financial Statements (Continued)

As of October 31, 2003, the company has Canadian non-capital loss carry-forwards totalling approximately $6,560,000, expiring in varying amounts from 2006 to 2009, and U.S. net operating losses totalling approximately $42,000 expiring in 2009 available to offset future taxable income as follows:

	$	Expiry
Year of origin		
December 6, 2001	2,558,000	2006
April 30, 2002	26,000	2007
October 31, 2002	1,662,000	2008
October 31, 2003	2,356,000	2009
	6,602,000	

In addition, the company has Canadian federal investment tax credits totalling approximately $378,000, expiring in varying amounts from 2009 to 2012, available to reduce future Canadian federal income taxes payable as follows:

	$	Expiry
Year of origin		
December 6, 2001	251,000	2009
April 30, 2002	117,000	2010
October 31, 2002		2011
October 31, 2003	10,000	2012
	378,000	

The company has scientific research and experimental development expenditure and property, plant and equipment tax pools totalling approximately $3,795,000 available to offset future taxable income and not subject to expiry.

Subsequent to October 31, 2003, the government of the Province of Ontario enacted legislation which reversed planned reductions in income tax rates applicable to future periods. As a result, the company s total long-term deferred income tax asset will increase by approximately $451,000.

12 Commitments and contingencies

a) Automobile leases

As of October 31, 2003, the company had minimum annual commitments for operating automobile leases as follows:

	$
2004	22,701
2005	17,181
2006	3,312
Thereafter	

43,194

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dealerAccess Inc.
Notes to Consolidated Financial Statements (Continued)

b) Legal dispute

The company was party to a software development agreement with a third-party developer. Pursuant to the agreement, the third-party developer: (i) licensed certain rights in and to its intellectual property; (ii) was engaged to perform certain software development activities; and (iii) had right of first refusal to provide additional services.

In March 2003, the company notified the third-party developer of the company s intention to terminate the software development agreement pursuant to the terms of the agreement.

Upon receiving the termination notice, the third-party developer advanced claims against the company for monies supposedly owed related to software development activities and additional services in the amount of $1,767,089, plus interest and all taxes. In addition, until such amounts are paid, the third-party developer is claiming that the company has no rights to the use of the company s licensed intellectual property.

In management s opinion, all amounts owing to the third-party developer under the software development agreement were paid and, as such, the company owns all intellectual property rights in and to the software developed by the third-party developer. In addition, management believes that the company has all licensed rights in and to the intellectual property of the third-party developer, pursuant to the software development agreement.

Settlement, if any, concerning this contingency will be recorded in the consolidated statement of operations in the year in which the settlement occurs.

c) Retail sales tax

The Ontario Ministry of Finance (the Ministry) has conducted a retail sales tax field audit on the company s financial records for the period from March 1, 2001 through to May 31, 2003. A preliminary assessment totalling approximately $148,000, plus interest and penalties from the taxing authority, has been submitted to the company indicating unpaid Ontario retail sales tax. Management has undertaken a review of the Ministry s preliminary assessment and believes that no amounts of Ontario retail sales tax are unpaid.

Settlement, if any, concerning this contingency will be recorded in the consolidated statement of operations in the year in which the settlement occurs.

13 Segment information

The company operates in one industry segment: financial services technology solutions for financial institutions, providing financing products, to a network of automotive vehicle dealerships and their customers.

The company operates in one geographic segment: Canada.

Approximately 73% of the company s total fees during 2003 was derived from its related parties, Bank of Montreal and financiaLinx Corporation. In addition, one other customer comprised approximately 20% of the company s total revenue during 2003.

14 Subsequent events

a) Increase in bank indebtedness

In November 2003, the company obtained an increase in its demand revolving credit facility with Bank of Montreal, its parent company, from CA$2,500,000 to CA$3,000,000 and subsequently fully utilized the increased facility.

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dealerAccess Inc.
Notes to Consolidated Financial Statements (Continued)

b) Capital stock purchase

On January 1, 2004, DealerTrack Holdings, Inc. acquired 100% of the issued and outstanding capital stock of dealerAccess Inc. The purchase price totalled $3,106,288, including legal fees of $221,373.

The purchase will be accounted for by using push-down accounting with the excess of the purchase price over the fair value of the net assets acquired being treated as goodwill. The purchase price allocation is estimated as follows:

	$
Net tangible assets acquired	383,411
Intangible assets acquired	1,976,942
Goodwill	745,935
	3,106,288

As part of the closing, the following occurred:

i) As of December 31, 2003, the demand revolving credit facility (CA$3,000,000) and the demand reducing credit facility (CA$100,000) were repaid in full by the company and these facilities were terminated. The funds required to repay the demand revolving credit facility were advanced by DealerTrack Holdings, Inc. as part of the purchase price and treated as additional paid-in capital. The funds required to repay the demand reducing credit facility were also advanced by DealerTrack Holdings, Inc. and treated as a related party liability with no specific repayment terms.

ii) The purchaser, DealerTrack Holdings, Inc., will be entitled to a purchase price adjustment, not to exceed $1,212,397, should certain portal transaction volume requirements over a three-year period not be met by Bank of Montreal, the selling shareholder, and financiaLinx Corporation, an affiliate of both the company and Bank of Montreal. The purchase price adjustment, if any, will be recorded in the consolidated balance sheet as a reduction to goodwill in the year in which the amount is determined.

iii) The seller, Bank of Montreal, indemnified the acquirer, DealerTrack Holdings, Inc., for those contingencies identified in notes 12(b) and (c).

c) Reverse stock split

On January 1, 2004, a reverse stock split (1 common share for every 193 common shares issued and outstanding) was approved by the company s board of directors, resulting in 5,182 issued and outstanding common shares.

d) Additional funding

The company received additional funds in the amount of $825,000 from its new parent company, DealerTrack Holdings, Inc.: $400,000 in January 2004; $275,000 in April 2004; $150,000 in March 2005; and $100,000 in April 2005. These amounts are non-interest bearing and unsecured.

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dealerAccess Inc.
Notes to Consolidated Financial Statements (Continued)

e) Office space lease

In March 2004, the company entered into a four-year lease for office space commencing on May 1, 2004. The minimum annual commitments for the office lease are as follows:

	$
2004	32,488
2005	65,293
2006	65,356
2007	65,356
2008	32,678
Thereafter	
	261,171

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Report of Independent Auditors

To the Stockholders and Board of Directors of
LLDG Operating Company (the   Company   )

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of stockholders   equity (deficit), and of cash flows present fairly, in all material respects, the financial position of LLDG Operating Company (formerly known as Lease Marketing, Ltd) and its subsidiaries at July 31, 2004 and December 31, 2003, and the results of their operations and their cash flows for the period from January 1, 2004 to July 31, 2004 and the year ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company   s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3, the Company restated its retained earnings (accumulated deficit) at December 31, 2002, previously reported on by other auditors to correct the accounting for transfer of payment streams and to correct the prior accounting for certain acquisitions.

As discussed in Note 1, on August 1, 2004, the Company sold substantially all of its assets and liabilities and ceased operations.

/s/ PricewaterhouseCoopers LLP
New York, New York
July 25, 2005

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LLDG OPERATING COMPANY (fka Lease Marketing, Ltd.)
Consolidated Balance Sheets
July 31, 2004 and December 31, 2003

	2004	2003
ASSETS		
Cash and cash equivalents	$ 8,830	$ 61,502
Accounts receivable, net	267,302	956,568
Other current assets	173,208	278,715
Total Current Assets	449,340	1,296,785
Property and equipment, net	909,478	1,125,480
Goodwill	3,925,461	3,925,461
Capitalized equipment costs, net	2,745,913	3,895,528
Software development costs, net	1,346,880	1,531,344
Other non-current assets, net	3,782,362	4,216,896
Total Assets	$ 13,159,434	$ 15,991,494
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Accounts payable	$ 1,553,069	$ 2,256,825
Accrued liabilities	4,619,209	2,519,644
Short term debt	1,650,000	1,800,000
Finance contracts payable current portion	23,347,266	26,746,241
Total Current Liabilities	31,169,544	33,322,710
Due to stockholders	2,095,000	1,425,000
Customer security deposits	4,041,151	3,320,856
Finance contracts payable less current portion	16,997,594	19,800,761
Total Liabilities	54,303,289	57,869,327
Common stock 1,000 shares of common stock issued and outstanding at no par value at July 31, 2004 and December 31, 2003	101,000	101,000
Accumulated deficit	(41,244,855)	(41,978,833)
Total stockholders equity (deficit)	(41,143,855)	(41,877,833)
Total Liabilities and Stockholders Equity (deficit)	$ 13,159,434	$ 15,991,494

The accompanying notes are an integral part of the financial statements.

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LLDG OPERATING COMPANY (fka Lease Marketing, Ltd.)
Consolidated Statements of Operations
For the seven month period ended July 31, 2004 and the year ended December 31, 2003

	2004	2003
Net Sales	$ 18,509,234	$ 40,219,513
Cost of sales	(2,633,990)	(5,626,005)
Gross profit	15,875,244	34,593,508
Operating expenses		
Selling and administrative expenses	(11,618,702)	(28,423,968)
Related party service fees	(412,500)	(1,296,039)
Other expenses	(161,852)	(64,530)
Total operating expenses	(12,193,054)	(29,784,537)
Interest expense, net	(2,948,212)	(5,567,350)
Net income (loss)	$ 733,978	$ (758,379)

The accompanying notes are an integral part of the financial statements.

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LLDG OPERATING COMPANY (fka Lease Marketing, Ltd.)
Consolidated Statements of Stockholders Equity (Deficit) Restated
For the seven month period ended July 31, 2004 and the year ended December 31, 2003

	Common Stock	Retained Earnings (Deficit)	Total
Balance, December 31, 2002, as previously reported	$ 101,000	$ 596,295	$ 697,295
Restatement		(41,816,749)	(41,816,749)
Balance, December 31, 2002 as restated		(41,220,454)	(41,119,454)
Net loss		(758,379)	(758,379)
Balance, December 31, 2003	101,000	(41,978,833)	(41,877,833)
Net income		733,978	733,978
Balance, July 31, 2004	$ 101,000	$ (41,244,855)	$ (41,143,855)

The accompanying notes are an integral part of the financial statements.

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LLDG OPERATING COMPANY (fka Lease Marketing, Ltd.)
Consolidated Statements of Cash Flows
For the seven month period ended July 31, 2004 and the year ended December 31, 2003

	2004	2003
Cash flows from operating activities		
Net income (loss)	$ 733,978	$ (758,379)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	556,582	1,086,687
Imputed interest on finance contracts payable	2,774,392	5,505,694
Provisions for receivables	(21,313)	1,350,000
Changes in operating assets and liabilities		
Decrease in accounts receivable	710,579	181,038
Decrease (increase) in other current assets and other assets	632,307	299,223
Decrease in capitalized equipment costs	1,149,615	1,333,013
Increase (decrease) in accrued liabilities, and customer deposits	2,793,260	(2,268,793)
(Decrease) increase in accounts payable	(703,756)	1,754,149
Total adjustments	7,891,666	9,241,011
Net cash provided by operating activities	8,625,644	8,482,632
Cash flows from investing activities		
Payments for capitalized software development costs	(227,000)	(1,172,000)
Purchase of property and equipment	(21,382)	(960)
Net cash used by investing activities	(248,382)	(1,172,960)
Cash flows from financing activities		
Net (payments) borrowings under line of credit	(1,800,000)	1,800,000
Advance from Dealertrack	1,650,000	
Payments on capital leases		(77,095)
(Decrease) in net borrowings from finance contracts payable	(8,949,934)	(11,846,997)
Change in amounts due to/from stockholders	670,000	1,525,000
Net cash (used) by financing activities	(8,429,934)	(8,599,092)
Net (decrease) in cash and cash equivalents	(52,672)	(1,289,420)
Cash and cash equivalents		
Beginning of period	61,502	1,350,922
End of period	$ 8,830	$ 61,502

Supplemental disclosures of cash flow information

Cash paid for interest and income taxes for the period and year ended July 31 and December 31 respectively were		
Interest	$ 173,820	$ 63,659
State income tax	4,670	30,009

The accompanying notes are an integral part of the financial statements.

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LLDG OPERATING COMPANY (fka Lease Marketing, Ltd.)
Notes to Consolidated Financial Statements
July 31, 2004 and December 31, 2003

1. The Company and Basis of Presentation

LLDG Operating Company was incorporated on September 12, 1988 in the State of Illinois. The Company s primary business is the licensing of software, and the leasing of the computer equipment to run the software, to the automotive industry. The Company has a nationwide customer base in the United States.

Effective August 4, 2004, the Company changed its name from Lease Marketing, Ltd to LLDG Operating Company.

The consolidated financial statements present the Company as of and for the seven month period ended July 31, 2004 and the year ended December 31, 2003.

The Company s financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company incurred a net loss for the year ended December 31, 2003 of $758,379. As shown in the accompanying financial statements, the Company s current liabilities exceeded its current assets by $30,720,204 and $32,025,925 at July 31, 2004 and December 31, 2003, respectively. The Company had a net stockholders deficit of $41,244,855 and $41,978,833 at July 31, 2004 and December 31, 2003, respectively.

On August 1, 2004, the Company sold substantially all of its assets and liabilities for proceeds of $12.8 million. As a result of the sale, the financial statements have been prepared on the going concern basis.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of LLDG Operating Company and its wholly-owned subsidiaries since their acquisition dates. The subsidiaries include LML Systems, Inc, a company whose primary business is also the licensing of leasing software to the automotive industry; Superior Programming, Inc, whose primary business is providing software related products to the automotive industry; Wizard Asset Acquisition, LLC, whose primary business is also providing software related products to the automotive industry, Lease Marketing, LLC, LML Stock Acquisition Co. and LML Asset Acquisition, LLC.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid debt instruments with original maturities of three months or less.

Allowance for uncollectible receivables

An allowance for uncollectible trade receivables is recorded based on a combination of write-off history, ageing analysis, and any specific, known, troubled accounts.

Property and Equipment

Property and Equipment is recorded at cost, less accumulated depreciation and depreciated using the straight-line method over the estimated useful lives of the asset as follows:

Leasehold improvements	Shorter of useful life or lease term
Computer equipment	3 years
Furniture and fixtures	7 10 years
Computer software	3 4 years

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LLDG OPERATING COMPANY (fka Lease Marketing, Ltd.)
Notes to Consolidated Financial Statements (Continued)
July 31, 2004 and December 31, 2003

Upon retirement or sale, the costs of the assets disposed of and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in current period results. Long-lived assets are reviewed for impairment when events or change in business circumstances indicate that carrying value may not be reasonable. Recoverability of these assets is determined by comparing the forecasted undiscounted cash flows generated by those assets to their net carrying value. The amount of impairment loss, if any, will generally be measured by the difference between the net book value of the assets and the estimated fair value of the related assets.

Goodwill and Other Intangible Assets

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 142, Goodwill and Other Intangible Assets, whereby goodwill was no longer to be amortized, but instead was to be tested for impairment annually or more frequently if an event or circumstance indicates that an impairment loss may have been incurred. The Company estimates fair value by considering a number of factors including assessing operating results, business plans, economic projections, anticipated future cash flows and market data.

Capitalized Equipment Costs

The Company may supply computer equipment to customers as part of arrangements to operate its software. Such equipment is not specific to each customer and, accordingly, the equipment is accounted for as a service arrangement, rather than a leasing arrangement in accordance with Emerging Issues Task Force 01-08, Determining Whether an Arrangement Contains a Lease . The equipment provided is recorded at cost and depreciated, using the straight-line method, over the life of the arrangements.

The carrying value of the equipment is disclosed net of accumulated depreciation.

Software Development Costs

In accordance with SFAS No. 86, Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed , initial costs are charged to operations as research prior to the development of a detailed program design or a working model. Thereafter, the Company capitalizes the direct costs and allocated overhead associated with the development of software products. Costs incurred subsequent to the product release are charged to operations.

Capitalized software development costs are amortized annually by the greater of the ratio of current revenues to the current and anticipated future gross revenues of the product or using the straight-line method over the remaining estimated economic life of the product, currently over the estimated product life of 3 4 years on a straight-line basis. Unamortized costs are carried at the lower of book value or net realizable value.

Revenue Recognition

The Company s revenue is derived primarily from the provision of fixed term software licenses to automobile dealerships and financial institutions. In addition, the Company may lease computer equipment necessary to run the Company s software. The customer pays a single monthly fee which may include payment for the licensing of the software, supply of the equipment, installation of the equipment and updates of the software. The agreements are normally for 37 months, and require a security deposit at the inception of the agreement. In addition, customers are required to pay applicable taxes and maintain appropriate insurance on the equipment. Ownership of the software and equipment always remains with the Company. At the termination of the agreement, the software and equipment are returned to the Company.

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LLDG OPERATING COMPANY (fka Lease Marketing, Ltd.)
Notes to Consolidated Financial Statements (Continued)
July 31, 2004 and December 31, 2003

Software license arrangements include post contract customer support over the life of the arrangement. Revenue is recognized ratably over the life of the arrangement coincident with service delivery, net of the amortization of competitor buyout costs.

The Company may supply computer equipment to customers as part of arrangements to operate its software. Such equipment is not specific to each customer and accordingly, the provision of equipment is accounted for as a service arrangement, rather than a leasing arrangement. Revenue from the provision of equipment is recognized ratably over the life of the arrangement.

Subsequent to execution of the arrangement with the customer, the Company may transfer the rights to the payment streams under the leasing and licensing arrangement (collectively referred to as the customer contract) to financial institutions at a discount. Proceeds received by the Company upon the transfer are recorded as finance contracts payable.

Cost of sales

The Company includes depreciation of capitalized equipment, amortization of installation costs and shipping fees as cost of sales.

Income Taxes

The Company, with the consent of its stockholders, has elected under the Internal Revenue Code to be treated as an S corporation. In lieu of corporate income taxes, the stockholder of an S corporation is taxed on their proportionate share of the Company s taxable income. Therefore, no provision or liability for federal income taxes has been included in these financial statements.

Fair Value of Financial Instruments

The carrying value of the Company s financial instruments which includes cash equivalents, accounts receivable and accounts payable approximates fair value due to the short-term nature of these instruments. The estimated fair values of the Company s debt, including finance contracts payable, approximates its carrying value as of July 31, 2004 and December 31, 2003.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Advertising

Advertising costs are expensed as incurred. Advertising expense for the seven month period ended July 31, 2004 and year ended December 31, 2003 was $35,119 and $171,464, respectively.

Other Comprehensive Income

The Company had no other comprehensive income for all periods reported.

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LLDG OPERATING COMPANY (fka Lease Marketing, Ltd.)
Notes to Consolidated Financial Statements (Continued)
July 31, 2004 and December 31, 2003

3. Restatement

The Company s retained earnings at December 31, 2002 were restated to correct the accounting related to the transfer of payment streams and also to correct the prior accounting for certain acquisitions.

Transfer of payment streams

The Company transfers the rights to the payment streams of some of their customer contracts to financial institutions at a discount. Previously, the Company had recorded the proceeds of such transfers as revenue at the time of transfer, net of the estimated costs of servicing the arrangements. The estimated costs of servicing were deferred and recognized ratably over the life of the arrangement. The Company also previously recorded, upon the transfer of the payment streams, an expense for equipment, competitor buyout and installation costs associated with the payment streams transferred.

The Company has since determined that the transfer of the rights to the payment streams should be recorded as collateralized borrowings and not as revenue. Proceeds previously received upon the transfer of the payment streams which were recorded as revenue were restated to record such amounts as finance contracts payable. An adjustment of approximately $53 million was recorded to retained earnings at December 31, 2002 to record, as finance contracts payable, the remaining principle and interest balance outstanding on that date. Deferred revenue of approximately $2 million related to payment streams previously transferred was also reversed through an adjustment to retained earnings at December 31, 2002.

Costs previously written off were also capitalized to the extent service delivery over the life of the arrangement had not yet taken place. The costs of approximately $9 million will be amortized, using the straight-line method, over the life of the arrangements.

Purchase price allocation

On May 29, 2000, the Company purchased substantially all of the assets of Superior Programming for $4.7 million. On January 3, 2001, the Company purchased substantially all of the assets of Diamond Technology for $1.3 million. The aggregate purchase price of $6 million for the acquisitions was allocated primarily to goodwill ($4.9 million) with the remaining amounts allocated to capitalized software ($1 million) and net tangible assets ($0.1 million).

The Company has since determined that the prior year allocations did not comply with Accounting Principles Board Opinion No. 16, Business Combinations and subsequently SFAS No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets . This resulted in an overstatement of goodwill and understatement of capitalized software as recorded by the Company at December 31, 2002. In preparing the 2003 financial statements, the Company corrected the errors made in the original allocation of the purchase price for the two acquisitions. The restated purchase price allocation resulted in capitalized software of $2.2 million, $3.7 million of goodwill and $0.1 million of net tangible assets.

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LLDG OPERATING COMPANY (fka Lease Marketing, Ltd.)
Notes to Consolidated Financial Statements (Continued)
July 31, 2004 and December 31, 2003

The following table presents the impact of the above adjustments on Retained Earnings (deficit) as of December 31, 2002:

Retained earnings, December 31, 2002 (as previously reported)	$	596,295
Prior period adjustments		
Transfer of payment streams		
Deferred revenue		2,498,406
Capitalized equipment costs		5,228,541
Capitalized competitor buyout costs		906,162
Capitalized installation costs		3,059,463
Finance contracts payable		(52,944,305)
Purchase price allocation		
Amortization of software development costs		(641,210)
Amortization of goodwill		76,194
Accumulated deficit, December 31, 2002 (as restated)	$	(41,220,454)

4. Concentrations of Credit Risk

As discussed in Note 9, the Company transfers the payment streams to some of its customer contracts to financial institutions. Currently, the Company utilizes several financial institutions to fund agreements. Should the Company not be able to fund agreements with these investors, it could adversely impact the Company s financial position.

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 and believes it is not exposed to any significant credit risk on cash.

5. Accounts receivable

Accounts receivable consists of the following:

	2004	2003
Trade receivables	$ 259,737	$ 365,138
Contracts in transit	7,565	394,428
Miscellaneous receivable		72,204
Due from affiliate		124,798
	$ 267,302	$ 956,568

Trade receivables are net of allowances of $32,695 and $44,620 respectively as of July 31, 2004 and as of December 31, 2003.

LLDG OPERATING COMPANY (fka Lease Marketing, Ltd.)
Notes to Consolidated Financial Statements (Continued)
July 31, 2004 and December 31, 2003

6. Property and Equipment and Software Development Costs

Property and equipment, net, and software development costs, net, consisted of the following at July 31, 2004 and December 31, 2003:

	Estimated Useful Life (years)	2004	2003
Leasehold improvements	Shorter of useful life/lease term	$ 537,130	$ 537,130
Office equipment and furniture	7-10	1,113,195	1,114,273
Computer hardware and software	3-4	2,202,757	2,180,297
		3,853,082	3,831,700
Accumulated depreciation		(2,943,604)	(2,706,220)
Property and equipment, net		$ 909,478	$ 1,125,480
Software development costs	3-4	$ 3,540,957	$ 3,402,423
Accumulated amortization		(2,194,077)	(1,871,079)
Software development costs, net		$ 1,346,880	$ 1,531,344

Depreciation expense was $237,384 for the seven month period ended July 31, 2004 and $486,036 for the year ended December 31, 2003. Amortization of software development costs was $304,576 for the seven month period ended July 31, 2004 and $575,652 for the year ended December 31, 2003.

7. Capitalized equipment costs

The net carrying value of equipment capitalized and provided under customer contracts was $2,745,913 and $3,895,528 as at July 31, 2004 and December 31, 2003 respectively. The depreciation in respect of the equipment used and provided to customers, and charged to cost of sales in each of these periods, was $1,483,884 and $3,075,931 respectively.

8. Other non-current assets

Other non-current assets consist of the following:

	Estimated Useful Life (Years)	2004	2003
Security deposits		$ 29,887	$ 64,167
Capitalized installation costs	life of customer contract	2,440,073	2,757,968

Capitalized buyout costs	life of customer contract	1,288,687	1,356,424
		3,758,647	4,178,559
Noncompete covenant	5	125,000	125,000
Accumulated amortization		(101,285)	(86,663)
Other non-current assets, net		$ 3,782,362	$ 4,216,896

Amortization of non-compete covenants was $14,622 for the seven month period ended July 31, 2004 and $25,000 for the year ended December 31, 2003.

LLDG OPERATING COMPANY (fka Lease Marketing, Ltd.)
Notes to Consolidated Financial Statements (Continued)
July 31, 2004 and December 31, 2003

Installation costs comprise internal and external costs incurred at the commencement of customer contracts for installation and training of the Company s software. These costs are capitalized and amortized, using the straight-line method, over the life of the customer contracts.

At times the Company will buy-out contracts which customers have with competitors. These costs are recognized as a liability on execution of a buyout agreement, capitalized and amortized, using the straight-line method, over the life of the customer arrangement.

9. Accrued liabilities

Accrued liabilities consist of the following:

	2004	2003
Accrued 401(k) withholdings and contribution	$ 63,527	$ 52,400
Accrued payroll and payroll taxes	250,069	369,762
Accrued buyout costs	1,679,124	341,141
Accrued health insurance costs	660,198	150,072
Customer overpayments	440,751	457,784
Accrued vacation	171,047	90,000
Accrued commissions	260,000	315,000
Customer prepayments	135,202	157,903
Acccrued other	959,291	585,582
	$ 4,619,209	$ 2,519,644

10. Finance contracts payable

The Company transfers the rights to the payment streams of some of its customer contracts to financial institutions at a discount. The Company retains full recourse for performance obligations under these arrangements and, as a result, accounts for the transfer as a secured borrowing. Proceeds received upon the transfer of the rights to the payment streams are recorded as finance contracts payable. The Company reduces each finance contract payable monthly as services are delivered and cash is remitted directly to the financial institutions. Discount rates range from 10.25% to 15%. The remaining terms of the finance contracts outstanding at July 31, 2004 range from 1 month to 60 months.

	2004	2003
Total finance contracts payable	$ 40,344,860	$ 46,547,002
Less: current portion	(23,347,266)	(26,746,241)
Finance contracts payable non-current	$ 16,997,594	$ 19,800,761

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LLDG OPERATING COMPANY (fka Lease Marketing, Ltd.)
Notes to Consolidated Financial Statements (Continued)
July 31, 2004 and December 31, 2003

Future minimum payments due under customer contracts:

Period Ended July 31	Total Payment Streams	Previously Transferred to Financial Institutions	Payments to Be Received
2005	$ 29,792,561	$ 26,236,569	$ 3,555,992
2006	13,746,741	11,698,592	2,048,149
2007	4,681,422	4,352,779	328,643
2008	599,671	593,091	6,580
2009	54,565	54,565	
Thereafter			
	$ 48,874,960	$ 42,935,596	$ 5,939,364

11. Short-term debt

The Company maintained a line of credit agreement dated January 26, 2001 for a maximum of $3,500,000. On July 30, 2004 the Company terminated this line of credit agreement. The agreement bore interest at prime (4.00% at December 31, 2003). The Company had drawn $1,800,000 at December 31, 2003 upon this line of credit agreement, leaving $0 of unused line of credit available under the agreement.

In 2004, Dealertrack Holdings advanced $1,650,000 of the purchase price for the assets and liabilities of the Company to fund working capital requirements prior to the effective date of purchase on August 1, 2004 on an interest-free basis. The advance has been classified as short-term debt within the balance sheet.

12. Retirement Plan

On October 1, 1995, the Company adopted a 401(k) profit sharing plan. The plan is available to all eligible employees who have attained the age of 21 and worked for the Company for 90 days. The employee may contribute to the plan up to the maximum amount allowed by the Internal Revenue Service. The Company matches 75% of the amount contributed by each employee; in applying the match, only salary deferrals up to $2,667 annually will be considered. The Company discontinued matching contributions for 2004. The Company s retirement plan expense for the seven month period ended July 31, 2004 and year ended December 31, 2003 was $0 and $149,056, respectively.

13. Related party transactions

The Company rents training facilities from and pays for various expense items on behalf of a company related by common ownership. The following amounts are reflected on the financial statements from that company.

	2004	2003
Accounts receivable	$	$ 124,798
Prepaid rent	$	$
Training expense	$	$ 280,742

The Company pays service fees to its stockholders for services provided. The expense incurred for the seven month period ended July 31, 2004 and year ended December 31, 2003 was $412,500 and $1,296,039 respectively.

LLDG OPERATING COMPANY (fka Lease Marketing, Ltd.)
Notes to Consolidated Financial Statements (Continued)
July 31, 2004 and December 31, 2003

The Company received loans from its stockholders. These loans have no fixed repayment schedule and no set rate of interest due. The effective rate of interest applied was 7.6%.

The amounts due under the above loans at July 31, 2004 and December 31, 2003 were $2,095,000 and $1,425,000 respectively. Interest expense for the seven month period ended July 31, 2004 and year ended December 31, 2003 was $105,000 and $0 respectively.

14. Contingencies and Commitments

Contingencies

The Company is also subject to various claims and legal proceedings covering a wide range of matters that may arise in the ordinary course of business. Specifically, the Company is subject to claims of $1,126,987 for alleged breach of contract and $238,150 for past due fees for services. No amount has been accrued as the Company believes an adverse outcome is currently neither probable, nor estimable.

Management believes the resolutions of these and other claims and pending litigation will not have a material effect, individually or in the aggregate, to the financial position, results of operations and cash flows.

Lease agreements

As lessee

The Company leases its administrative and product development offices under several operating leases dated from February, 1999 through September, 2001. The leases expire at various times between September, 2004 and January, 2014. The Company is also responsible for the payment of its proportionate share of leasehold operating expenses and taxes above certain base amounts.

Future minimum lease payments under the above leases are as follows:

Period ended July 31		
2005	$	427,070
2006		312,877
2007		303,802
2008		305,879
2009		273,629
Thereafter		1,181,431
	$	2,804,688

The Company also leases office and transportation equipment under leases dated October, 1997 through April, 2001. The leases expire at various times, but no later than May, 2008.

LLDG OPERATING COMPANY (fka Lease Marketing, Ltd.)
Notes to Consolidated Financial Statements (Continued)
July 31, 2004 and December 31, 2003

Future minimum lease payments under the above leases are as follows:

Period ended July 31		
2005	$	17,098
2006		19,307
2007		14,329
2008		4,997
2009		
Thereafter		
	$	55,731

Rent expense under the aforementioned leases was approximately $448,459 and $1,139,365 for the seven month period ended July 31, 2004 and the year ended December 31 2003, respectively.

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Report of Independent Auditors

To the Board of Directors of
NAT Holdings, Inc.

In our opinion, the accompanying consolidated balance sheet and the related statement of operations, changes in equity and cash flows present fairly, in all material respects, the consolidated financial position of NAT Holdings, Inc. and subsidiary (the Company) at December 31, 2004, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Those financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, on May 23, 2005, the Company sold substantially all of its assets and certain liabilities.

/s/ PricewaterhouseCoopers LLP
Melville, New York
September 21, 2005

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NAT HOLDINGS, INC.
Consolidated Balance Sheets
March 31, 2005 and December 31, 2004

	March 31, 2005	December 31, 2004
	(Unaudited)	
ASSETS		
Current assets		
Cash	$ 97,225	$ 89,299
Accounts receivable, less allowance of doubtful accounts of $10,000 as of March 31, 2005 (unaudited) and December 31, 2004	320,180	140,990
Prepaid expenses	110,942	146,028
Total current assets	528,347	376,317
Property and equipment, net	327,966	375,388
Deposits	1,110	634
Intangibles, net	1,473,333	1,603,333
Goodwill	2,300,204	2,300,204
Total assets	$ 4,630,960	$ 4,655,876
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 163,750	$ 92,322
Line of credit (due to majority shareholder)	615,000	
Accrued expenses and other liabilities	1,816,728	902,026
Deferred revenue	727,951	871,655
Total current liabilities	3,323,429	1,866,003
Commitments and contingencies (Note 7)		
Stockholders equity		
Common stock, $0.01 par value, authorized 100,000 shares; issued and outstanding 50,925 shares	509	509
Paid-in capital	8,788,043	8,788,043
Accumulated deficit	(7,481,021)	(5,998,679)
Total stockholders equity	1,307,531	2,789,873
Total liabilities and stockholders equity	$ 4,630,960	$ 4,655,876

The accompanying notes are an integral part of these consolidated financial statements.

NAT HOLDINGS, INC.
Consolidated Statements of Operations
Three Months Ended March 31, 2005 and 2004 and Year Ended December 31, 2004

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004	Year Ended December 31, 2004
	(Unaudited)		
Revenue	$ 917,870	$ 651,120	$ 3,897,280
Costs of revenue	610,083	455,486	2,441,999
Product development	164,590	132,157	656,242
Selling, general and administrative	1,616,464	939,036	3,346,708
Total operating expenses	2,391,137	1,526,679	6,444,949
Loss from operations	(1,473,267)	(875,559)	(2,547,669)
Interest expense, net	(8,602)	(10,389)	(92,607)
Other	99	1,532	6,684
Total other expense, net	(8,503)	(8,857)	(85,923)
Loss before provision for income taxes	(1,481,770)	(884,416)	(2,633,592)
Provision for income taxes	572		1,388
Net loss	$ (1,482,342)	$ (884,416)	$ (2,634,980)

The accompanying notes are an integral part of these consolidated financial statements.

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NAT HOLDINGS, INC.
Consolidated Statements of Stockholders Equity
Three Months Ended March 31, 2005 and Year Ended December 31, 2004

	Common Stock		Additional Paid-In	Accumulated	
	Shares	Amount	Capital	Deficit	Total
Balance as of December 31, 2003	39,970	$ 400	$ 6,788,152	$ (3,363,699)	$ 3,424,853
Issuance of common stock in connection with the conversion of convertible debt	10,955	109	1,999,891		2,000,000
Net loss				(2,634,980)	(2,634,980)
Balance as of December 31, 2004	50,925	509	8,788,043	$ (5,998,679)	$ 2,789,873
Net loss (unaudited)				(1,482,342)	(1,482,342)
Balance as of March 31, 2005 (unaudited)	50,925	$ 509	$ 8,788,043	$ (7,481,021)	$ 1,307,531

The accompanying notes are an integral part of these consolidated financial statements.

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NAT HOLDINGS, INC.
Consolidated Statements of Cash Flows
Three Months Ended March 31, 2005 and 2004 and Year Ended December 31, 2004

	Three Months Ended March 31,		Year Ended December 31,
	2005	2004	2004
	(Unaudited)		
Cash flows from operating activities			
Net loss	$ (1,482,342)	$ (884,416)	$ (2,634,980)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities			
Depreciation and amortization	177,422	142,299	624,576
Allowance for doubtful accounts			10,000
Changes in assets and liabilities			
Accounts receivable	(179,190)	628,363	698,962
Prepaid expenses	35,086	(41,472)	287,933
Security deposits	(476)		6,570
Accounts payable	71,428	115,465	55,862
Accrued expenses	914,702	264,272	383,993
Deferred revenue	(143,704)	(202,563)	(809,028)
Net cash (used in) provided by operating activities	(607,074)	21,948	(1,376,112)
Cash flows from operating activities			
Capital expenditures		(133,022)	(364,371)
Net cash used in investing activities		(133,022)	(364,371)
Cash flows from financing activities			
Borrowings under convertible debt facilities	615,000	350,000	1,600,000
Net cash provided by financing activities	615,000	350,000	1,600,000
Net increase (decrease) in cash	7,926	238,926	(140,483)
Cash			
Beginning of year	89,299	229,782	229,782
End of year	$ 97,225	$ 468,708	$ 89,299
Supplemental information			
Cash paid during the year for interest	$ 2,193	$ 573	$ 38,535
Cash paid during the year for income taxes	572		1,388
Noncash financing activities			
Issuance of common stock in connection with the conversion of convertible debt			2,000,000

The accompanying notes are an integral part of these consolidated financial statements.

NAT HOLDINGS, INC.
Notes to Consolidated Financial Statements

1. Business and Summary of Significant Accounting Policies

Business

NAT Holdings, Inc., a Delaware corporation, (hereinafter referred to as the Company) is in the business of developing, marketing, distributing, and servicing software applications that improve workflow processes for aftermarket providers, including insurance companies, third-party administrators, and auto retailers who underwrite, price, administer, manage and sell service contracts, GAP coverage, theft deterrent devices, credit life insurance and other aftermarket products. The Company also offers other services, including consulting and training.

On May 23, 2005, the Company sold substantially all of its assets and certain liabilities for proceeds of $8.4 million. As a result of the sale, the financial statements have been prepared on the going concern basis.

Organization and Basis of Financial Statements

The operations of the business are conducted through the Company s wholly owned subsidiary, North American Advanced Technologies, Inc. (NAAT), an Illinois Corporation. The Company is owned 78% by three investment funds managed by Saratoga Partners LLC (Saratoga). Members of management own the remaining shares. The Company operates under the name of NAT, Inc. The financial statements include the accounts of the Company and NAT, Inc. Intercompany transactions and balances have been eliminated.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates, judgments, or assumptions and actual results, our financial statements will be affected. The most significant assumptions and estimates relate to recoverability of goodwill and intangible assets estimated, the useful lives of property and equipment and intangible assets, and contract accounting.

Unaudited Interim Financial Statements

The accompanying unaudited interim consolidated balance sheet as of March 31, 2005, the consolidated statements of operations for the three months ended March 31, 2005 and 2004, the consolidated statement of changes in equity for the three months ended March 31, 2005, and the consolidated statements of cash flows for the three months ended March 31, 2005 and 2004 are unaudited. These unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America. In our opinion, the unaudited interim consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments necessary for fair presentation of the periods presented. The unaudited results for the three months ended March 31, 2005 are not necessarily indicative of the results to be expected for any subsequent quarterly or annual financial period, including for the year ending December 31, 2005.

Revenue Recognition

Revenues are derived from the following sources: 1) software licenses, 2) maintenance, which includes product support and software updates, and 3) services, which includes consulting and training.

NAT HOLDINGS, INC.

Notes to Consolidated Financial Statements (Continued)

The Company recognizes revenue in accordance with SAB No. 104, *Revenue Recognition*, SOP 97-2, *Software Revenue Recognition*, and SOP 98-9, *Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions.*

For software license arrangements that do not require significant modification or customization of the underlying software, software license revenue is recognized when: (1) a legally binding arrangement is entered into with a customer for the license of the software; (2) delivery of the software occurs; (3) customer payment is deemed fixed or determinable and free of contingencies or significant uncertainties, and (4) collection is probable.

The vast majority of our software license arrangements include revenue from software license updates and product support (i.e., maintenance), which is recognized ratably over the term of the arrangement, typically one year. Software license updates provide customers with rights to unspecified software product upgrades, maintenance releases, and patches released during the support period on a when and if available basis. Maintenance is generally priced as a percentage of software license fees.

The vast majority of our software arrangements include consulting revenue for customization and implementation services. Consulting revenue from these arrangements is accounted for separately from software license revenue if the arrangements qualify as service transactions as defined in SOP 97-2. The more significant factors considered in determining whether the revenue should be accounted for separately include the nature of the services (i.e., consideration of whether the services are essential to the functionality of the licensed product), degree of risk, availability of services from other vendors, timing of payments, and impact of milestones or acceptance criteria on the reliability of the software license fee.

If an arrangement does not qualify for separate accounting of the software license and consulting transactions, then software license revenue is generally recognized together with the consulting services based on contract accounting using either the percentage-of-completion or completed-contract method. Contract accounting is applied to arrangements: (1) that include milestones or customer specific acceptance criteria that may affect collection of the software license fees; (2) where services include significant modification or customization of the software; (3) where significant consulting services are provided for in the software license contract without additional charge or are substantially discounted; or (4) where the software license payment is tied to the performance of the consulting services.

For arrangements with multiple elements, we allocate revenue to each element of a transaction based upon its fair value as determined by vendor specific objective evidence (VSOE). VSOE of fair value for elements of an arrangement is based upon the normal pricing and discounting practices for those products and services when sold separately and, for maintenance services, by the renewal rate offered to the customer.

Revenue for any undelivered element is deferred and recognized when the product is delivered or over the period in which the services are delivered, in accordance with our revenue recognition policy for such element. If we cannot objectively determine the fair value of any undelivered element included in bundled software and service arrangements, we defer revenue until all elements are delivered and services are performed, or until fair value can objectively be determined for any remaining undelivered element.

The Company assesses whether fees are fixed or determinable at the time of sale and recognizes revenue if all other revenue recognition requirements are met.

Concentration of Credit Risk

The Company maintains all of its cash balances with one financial institution. Accounts receivable credit risk is not concentrated within any one geographic area. The Company s largest customers consist of life insurance and automotive firms. 4, 5 and 4 customers accounted for approximately 90%, 90% and 81% of total

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NAT HOLDINGS, INC.
Notes to Consolidated Financial Statements (Continued)

revenues for the three months ended March 31, 2005 and 2004 (unaudited) and the year ended December 31, 2004, respectively.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets, which range from two to seven years. Leasehold improvements are amortized over the lesser of their estimated useful lives or the lease term, as appropriate.

Goodwill

Goodwill represents the excess of the purchase price in a business combination over the fair value of the net tangible and intangible assets acquired. Goodwill and intangible assets considered to have indefinite useful lives are not amortized, but rather are tested for impairment annually or more frequently if an event or circumstance indicates that an impairment loss may have occurred. Goodwill is assessed for recoverability by determining whether the carrying value of the reporting unit containing the goodwill exceeds its fair value. The Company estimates fair value by considering a number of factors including assessing operating results, business plans, economic projections, anticipated future cash flows and market data.

Advertising

All advertising costs are expensed as incurred. Advertising expenses were approximately $21,000, $36,000, $74,000 in the three month period ended March 31, 2005 and 2004 (unaudited) and the year ended December 31, 2004, respectively.

Deferred Revenue

Deferred revenues primarily relate to customer support agreements that have been paid for by customers prior to the performance of those services and, to a lesser extent, prepaid consulting and deferred license fees.

Research and Development

All research and development costs are expensed as incurred. Costs eligible for capitalization under SFAS Statement No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed*, are not material to the Company s consolidated financial statements.

Comprehensive Loss

SFAS No. 130, *Reporting Comprehensive Income*, requires companies to classify items of other comprehensive income/loss by their nature in the financial statements and display the accumulated balance of other comprehensive income/loss separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. The Company has had no other comprehensive income/loss items to report besides net loss.

Cost of Revenues

Cost of license revenue consists of the amortization of capitalized software development costs. Cost of service and maintenance revenue consists primarily of salaries, benefits and allocated overhead costs related to consulting, training and customer support personnel, including cost of services provided by third-party consultants engaged by the Company.

NAT HOLDINGS, INC.
Notes to Consolidated Financial Statements (Continued)

Income Taxes

The Company accounts for income taxes in accordance with SFAS Statement No. 109, *Accounting for Income Taxes.* Deferred income taxes are recorded for the expected tax consequences of temporary differences between the tax bases of assets and liabilities for financial reporting purposes and amounts recognized for income tax purposes. The Company records a valuation allowance to reduce deferred tax assets to the amount of future tax benefit that is more likely than not to be realized.

Impairment of Long-Lived Assets

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, long-lived assets, such as property and equipment, and intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Our primary measure for fair value is based on projected discounted future operating cash flows using a discount rate commensurate with the risk involved.

Fair Value of Financial Instruments

The fair value of financial instruments is determined by reference to market data and other valuation techniques as appropriate. The Company believes the fair value of its financial instruments, principally cash, trade accounts receivable, accounts payable and accrued expenses, and obligations under line of credit, approximates their recorded values due to the short-term nature of the instruments or interest rates, which are comparable with current rates.

2. Acquisitions

On February 5, 2003, the Company completed the acquisition of NAAT. The acquisition was accounted for as a business combination. The assets acquired and the liabilities assumed were recorded at their fair values as of February 5, 2003. The total purchase price was $5.74 million, including acquisition-related transaction costs of $760,194. Acquisition-related transaction costs included consulting and legal fees.

Under business combination accounting, the total purchase price was allocated to NAAT s net tangible and identifiable intangible assets based on their estimated fair values as of February 5, 2003 as set forth below. The excess of the purchase price over the net tangible and identifiable intangible assets were recorded as goodwill. The allocation of the purchase price was based upon estimates and assumptions.

Net Current Assets	$	821,285
Fixed assets		16,023
Goodwill		2,300,204
Intangible assets (Note 6)		2,600,000
Total purchase price	$	5,737,512

In performing the purchase price allocation, the Company considered, among other factors, our intention for future use of the acquired assets, analyses of historical financial performance, and estimates of future financial performance. Management, using an income approach, estimates, and assumptions, established the fair value of intangible assets.

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NAT HOLDINGS, INC.
Notes to Consolidated Financial Statements (Continued)

3. Borrowings

On February 5, 2003, the Company s majority shareholder (Saratoga) agreed to extend through a line of credit up to $2.0 million to fund the working capital needs of the Company through June 30, 2004. The line of credit carried an interest rate of 10%. Any amounts outstanding on June 30, 2004 would be converted to equity. The equity conversion provision was amended in June 2004, extending the conversion date to September 30, 2004. On September 30, 2004, the balance outstanding under the line of credit was $2.0 million and was converted to equity. There were no borrowings outstanding under any facility on December 31, 2004.

On various dates in January through March 2005, the Company s majority shareholder (Saratoga) agreed to loan the Company a total of $615,000 to fund its working capital needs at 10% interest. The amount was repaid with interest on May 25, 2005.

4. Income Taxes

At December 31, 2004, the Company had net operating loss carryforwards of approximately $3.1 million to offset future taxable income. Subject to current regulations, these losses begin to expire in 2018 and are subject to limitations on their utilization. The Company has established a valuation reserve for all of these carryforwards due to uncertainty related to realization of the associated deferred tax asset. The Company revises the adequacy of the valuation allocation and will recognize the benefit of deferred taxes when it is more likely than not that the deferred taxes will be realized.

The difference in income tax expense between the amount computed using the federal statutory income tax rate and our effective tax rate is primarily due to state income taxes and permanent differences.

		2004
Deferred tax assets		
Net operating losses	$	1,226,418
Deferred revenue		183,878
Depreciation		18,536
Other		160,867
Total deferred tax assets		1,589,699
Valuation allowance		(1,589,699)
Net deferred tax assets		
Net deferred tax liabilities		
Total net deferred tax assets	$	

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NAT HOLDINGS, INC.
Notes to Consolidated Financial Statements (Continued)

5. Property and Equipment

Property and equipment at March 31, 2005 and December 31, 2004 consisted of the following:

	Estimated Useful Lives	March 31, 2005	December 31, 2004
		(Unaudited)	
Computer and network equipment	5	$ 77,806	$ 77,806
Leasehold improvements	5	46,296	46,296
Computer software	3	368,365	368,365
Furniture and fixtures	5	1,390	1,390
Total fixed assets		493,857	493,857
Accumulated depreciation and amortization		(165,891)	(118,469)
Fixed assets, net		$ 327,966	$ 375,388

Depreciation and amortization expense for property and equipment was $47,422, $12,299 and $104,576 for the three-month period ended March 31, 2005 and 2004 (unaudited) and the year ended December 31, 2004.

6. Intangible Assets

Intangible assets at December 31, 2004 consisted of the following:

	Useful Life	Gross	Accumulated Amortization	Net Book Value
Core technology	5 years	$ 1,400,000	$ (536,667)	$ 863,333
Customer contracts	5 years	900,000	(345,000)	555,000
Noncompete agreements	5 years	300,000	(115,000)	185,000
Totals at December 31, 2004		$ 2,600,000	$ (996,667)	$ 1,603,333

Intangible assets at March 31, 2005 (unaudited) consisted of the following:

	Useful Life	Gross	Accumulated Amortization	Net Book Value
Core technology	5 years	$ 1,400,000	$ (606,667)	$ 793,333
Customer contracts	5 years	900,000	(390,000)	510,000
Noncompete agreements	5 years	300,000	(130,000)	170,000
Totals at March 31, 2005		$ 2,600,000	$ (1,126,667)	$ 1,473,333

Intangible assets are amortized using the straight-line method. Total amortization expense for the year ended December 31, 2004 and three months ended March 31, 2005 and 2004 (unaudited) was $520,000,

NAT HOLDINGS, INC.
Notes to Consolidated Financial Statements (Continued)

$130,000 and $130,000, respectively. Estimated future amortization expense related to intangible assets is as follows:

	Year Ending December 31,
2005	$ 520,000
2006	520,000
2007	520,000
2008	43,333
	$ 1,603,333

7. Commitments and Contingencies

The Company leases certain facilities and equipment under operating leases. Total rental expense, including rentals on month-to-month or usages basis leases, was approximately $173,000 for the year ended December 31, 2004. As of December 31, 2004, future minimum annual operating lease payments were as follows:

	Year Ending December 31,
2005	$ 220,641
2006	195,697
2007	176,157
2008	173,991
2009	180,223
Thereafter	91,410
	$ 1,038,119

Litigation

The Company reviews quarterly the status of each significant claim and legal proceedings and assesses its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, the Company accrues a liability for the estimated loss. The Company is not involved in any legal proceedings or claim, which may result in a loss.

Related Party Service Agreement

On February 5, 2003, the Company entered into an agreement with its majority shareholder, (Saratoga) to provide management and advisory services. The length of the agreement is 10 years. The annual management fees payable under the agreement are $250,000.

8. Benefit Plans

Full time employees can participate in the Company s 401(k) Savings and Investment Plan. Participants can generally contribute up to 15% of their eligible compensation annually as defined by the plan document or by the section 402(g) limit as defined by the Internal Revenue Service.

9. Subsequent Events

On May 23, 2005, the Company entered into a Separation and Release Agreement with a former executive that terminated the employment relationship between the executive and the Company. As part of the Separation and

Release Agreement, the Company paid the former executive approximately $581,000 in salary, accrued vacation and bonuses.

LOGO

10,000,000 Shares
Common Stock

PROSPECTUS
December 12, 2005

Lehman Brothers
JPMorgan

Wachovia Securities

William Blair & Company
SG Cowen & Co.