

MakeMusic, Inc.
Statements of Operations
(In thousands of U.S. dollars, except share and per share data)
(Unaudited)

	3 Months		6 Months	
	Ended June 30,		Ended June 30,	
	2010	2009	2010	2009
Notation revenue	<u>\$2,462</u>	\$2,393	<u>\$5,030</u>	\$5,009
SmartMusic revenue	<u>1,315</u>	1,081	<u>2,747</u>	2,306
NET REVENUE	<u>3,777</u>	3,474	<u>7,777</u>	7,315
COST OF REVENUES	<u>571</u>	475	<u>1,222</u>	1,031
GROSS PROFIT	<u>3,206</u>	2,999	<u>6,555</u>	6,284
	85%	86%	84%	86%
OPERATING EXPENSES:				
Development expenses	<u>1,402</u>	1,229	<u>2,724</u>	2,508
Selling and marketing expenses	<u>1,035</u>	1,019	<u>2,234</u>	2,150
General and administrative expenses	<u>877</u>	860	<u>1,916</u>	1,892
Total operating expenses	<u>3,314</u>	3,108	<u>6,874</u>	6,550
LOSS FROM OPERATIONS	(108)	(109)	(319)	(266)
Other, net	<u>13</u>	18	<u>40</u>	32
Net loss before income tax	(95)	(91)	(279)	(234)
Income tax (benefit) expense	<u>(47)</u>	0	<u>(114)</u>	2
Net Loss	<u><u>(\$48)</u></u>	<u><u>(\$91)</u></u>	<u><u>(\$165)</u></u>	<u><u>(\$236)</u></u>
Loss per common share:				
Basic and diluted	(\$0.01)	(\$0.02)	(\$0.03)	(\$0.05)
Weighted average common shares outstanding:				
Basic and diluted	4,818,295	4,661,923	4,793,334	4,653,215

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MakeMusic, Inc.
Balance Sheets
(In thousands of U.S. dollars, except share data)

	June 30, 2010 (Unaudited)	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$7,986	\$8,943
Accounts receivable (net of allowance of \$32 and \$33 in 2010 and 2009, respectively)	1,189	1,277
Inventories	282	386
Deferred income taxes, net	1,587	1,587
Prepaid expenses and other current assets	343	294
Total current assets	11,387	12,487
Property and equipment, net	432	533
Capitalized software products, net	2,537	2,645
Goodwill	3,630	3,630
Long term deferred income taxes, net	1,125	977
Other non-current assets	4	6
Total assets	\$19,115	\$20,278
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of capital lease obligations	54	\$61
Accounts payable	316	726
Accrued compensation	1,004	1,167
Other accrued liabilities	208	297
Post contract support	132	132
Reserve for product returns	465	414
Deferred revenue	2,191	2,913
Total current liabilities	4,370	5,710
Capital lease obligations, net of current portion	7	30
Other long term liabilities	0	8
Shareholders' equity:		
Common stock, \$0.01 par value:		
Authorized shares – 10,000,000		
Issued and outstanding shares – 4,857,503 and 4,756,891 in 2010 and 2009, respectively	49	48
Additional paid-in capital	66,352	65,980
Accumulated deficit	(51,663)	(51,498)
Total shareholders' equity	14,738	14,530
Total liabilities and shareholders' equity	\$19,115	\$20,278

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MakeMusic, Inc.
Statements of Cash Flows
(In thousands of U.S. dollars)
(Unaudited)

	6 Months	
	Ended June 30,	
	2010	2009
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Cash flows from operating activities		
Net loss	(\$165)	(\$236)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	508	464
Deferred income taxes, net	(148)	0
Share based compensation	270	185
Net changes in assets and liabilities:		
Accounts receivable	88	240
Inventories	104	(41)
Prepaid expenses and other current assets	(49)	(27)
Accounts payable	(410)	(32)
Accrued liabilities and product returns	(209)	0
Deferred revenue	(722)	(534)
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Net cash (used in) provided by operating activities	(733)	19
 Cash flows from investing activities		
Purchases of property and equipment	(72)	(175)
Capitalized development	(224)	(327)
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Net cash used in investing activities	(296)	(502)
 Cash flows from financing activities		
Payments on capital leases	(30)	(13)
Proceeds from exercise of options	102	0
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Net cash (used in) provided by financing activities	72	(13)
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Net decrease in cash and cash equivalents	(957)	(496)
Cash and cash equivalents, beginning of period	8,943	6,592
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Cash and cash equivalents, end of period	\$7,986	\$6,096
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 Supplemental disclosure of cash flow information		
Interest paid	\$4	\$5
Income taxes paid	99	2

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