Aftersoft Group
Form 10-Q
April 26, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For quarterly period ended March 31, 2010

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________________ to _________________

Commission File Number 000-27083

AFTERSOFT GROUP, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	84-1108035
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

Maple Park, Maple Court, Tankersley, Barnsley, UK S75 3DP
(Address of principal executive offices)(Zip code)

011 44 124 431 1794
(Registrant's telephone number, including area code)

Second Floor, 9 Lower Bridge Street, Chester, UK CH1 1RS
(Former address, changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ¨ No ¨

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

The registrant has 84,351,379 shares of common stock outstanding as of April 26, 2010.

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PART I—FINANCIAL INFORMATION

Unless the context indicates or requires otherwise, (i) the term “Aftersoft” refers to Aftersoft Group, Inc. and its principal operating subsidiaries; (ii) the term “MAM Software” refers to MAM Software Limited; (iii) the term “ASNA” refers to Aftersoft Network N.A, Inc. and its subsidiaries; (iv) the term “EXP” refers to EXP Dealer Software Limited and its subsidiaries; (v) the term “DSS” refers to Dealer Software and Services Limited; and (vi) the terms “we,” “our,” “ours,” “us” and the “Company” refer collectively to Aftersoft Group, Inc.

ITEM 1. FINANCIAL STATEMENTS

Index to Financial Statements

AFTERSOFT GROUP, INC.
Consolidated Balance Sheets
(In thousands, except share data)

	March 31, 2010 (Unaudited)	June 30, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,457	$ 1,663
Accounts receivable, net of allowance of $161 and $87	2,445	2,154
Inventories	337	318
Prepaid expenses and other current assets	469	507
Total Current Assets	4,708	4,642
Property and Equipment, Net	891	1,028
Other Assets		
Goodwill	8,924	9,548
Amortizable intangible assets, net	2,933	3,566
Software development costs, net	1,565	1,691
Other long-term assets	64	179
Total Assets	$ 19,085	$ 20,654
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 1,573	$ 1,386
Accrued expenses and other	2,970	3,162
Payroll and other taxes	279	278
Derivative liabilities	305	-
Current portion of long-term debt, net of debt discount	5,540	1,598
Current portion of deferred revenue	386	482
Current portion of litigation liability	699	-
Taxes payable	648	708
Total Current Liabilities	12,400	7,614
Long-Term Liabilities		
Deferred revenue, net of current portion	295	748
Deferred income taxes	710	880
Long-term debt, net of current portion	187	4,713
Litigation liability, net of current portion	551	-
Other	183	199
Total Liabilities	14,326	14,154
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Preferred stock:		
Par value $0.0001 per share; 10,000,000 shares authorized, none issued and outstanding	-	-

Common stock:				
Par value $0.0001 per share; 150,000,000 shares authorized, 84,042,708 and 83,462,337 shares issued and outstanding, respectively		8		8
Additional paid-in capital		29,438		30,219
Accumulated other comprehensive loss		(1,027)		(482)
Accumulated deficit		(23,660)		(23,245)
Total Stockholders' Equity		4,759		6,500
Total Liabilities and Stockholders' Equity	$	19,085	$	20,654

The Accompanying Notes Are an Integral Part of these Consolidated Financial Statements

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AFTERSOFT GROUP, INC.
Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)
(In thousands except for share and per share data)

	For the Three Months Ended March 31, 2010	For the Three Months Ended March 31, 2009	For the Nine Months Ended March 31, 2010	For the Nine Months Ended March 31, 2009
Revenues	$ 5,550	$ 5,027	$ 18,508	$ 15,877
Cost of revenues	2,492	2,125	7,926	7,115
Gross profit	3,058	2,902	10,582	8,762
Operating expenses				
Research and development	754	721	2,361	2,215
Sales and marketing	493	550	1,757	1,710
General and administrative	1,746	1,134	4,973	4,117
Depreciation and amortization	276	253	847	781
Total operating expenses	3,269	2,658	9,938	8,823
Operating income (loss)	(211)	244	644	(61)
Other income (expense)				
Interest expense	(314)	(413)	(1,044)	(1,213)
Write down of investment available-for-sale securities	-	-	-	(3,957)
Interest income	-	8	-	21
Change in fair value of derivative liabilities	(62)	-	253	-
Gain on settlement of liability	-	-	50	-
Other, net	-	(2)	(1)	11
Total other expense, net	(376)	(407)	(742)	(5,138)
Loss before provision for income taxes	(587)	(163)	(98)	(5,199)
Provision for income taxes	132	152	778	465
Net Loss	(719)	(315)	(876)	(5,664)
Reversal of unrealized loss on investments in available-for-sale securities	-	281	-	1,089
Foreign currency translation loss	(437)	(458)	(545)	(4,101)
Total comprehensive loss	$ (1,156)	$ (492)	$ (1,421)	$ (8,676)
Loss per share attributed to common stockholders - basic and diluted	$ (0.01)	$ -	$ (0.01)	$ (0.07)
Weighted average shares outstanding - basic and diluted	84,028,138	79,123,769	83,761,308	88,291,870

The Accompanying Notes Are an Integral Part of these Consolidated Financial Statements

AFTERSOFT GROUP, INC.
Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	For the Nine Months Ended March 31, 2010	March 31, 2009
Cash flows from operating activities:		
Net loss	$ (876)	$ (5,664)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Bad debt expense	127	-
Depreciation and amortization	847	781
Write down of investments in available-for-sale securities	-	3,957
Debt discount and debt issuance cost amortization	428	594
Fair value of stock issued for services	51	20
Gain on settlement of liability	(50)	-
Deferred income taxes	(170)	-
Change in fair value of derivative liabilities	(253)	-
Warrants issued for settlement of service agreement	36	-
Changes in assets and liabilities		
Accounts receivable	(596)	491
Inventories	(50)	276
Prepaid expenses and other assets	3	234
Accounts payable	278	(917)
Accrued expenses and other liabilities	1,298	89
Deferred revenue	(515)	(50)
Taxes payable	(5)	(218)
Net cash provided by (used in) operating activities	553	(407)

The Accompanying Notes Are an Integral Part of these Consolidated Financial Statements

AFTERSOFT GROUP, INC.
Consolidated Statements of Cash Flows (continued)
(Unaudited)
(In thousands)

Cash flows from investing activities :				
Purchase of property and equipment		(69)		(98)
Capitalized software development costs		(69)		(185)
Net cash used in investing activities		(138)		(283)
Cash flows from financing activities:				
Proceeds from sale of Parent company common stock, net of issuance costs		-		841
Proceeds from debt, net of issuance costs		-		500
Payments on debt		(719)		(384)
Net cash (used in) provided by financing activities		(719)		957
Effect of exchange rate changes		98		(1,084)
Net decrease in cash and cash equivalents		(206)		(817)
Cash and cash equivalents, beginning of period		1,663		1,964
Cash and cash equivalents, end of period	$	1,457	$	1,147
Supplemental disclosures of cash flow information				
Cash paid during the period for:				
Interest	$	601	$	619
Income taxes	$	414	$	318
Supplemental disclosures of non-cash investing and financing activities :				
Value of distributed shares	$	-	$	29
Value of retired shares	$	-	$	2,126
Cumulative effect to retained earnings due to adoption of accounting standard	$	461	$	-
Cumulative effect to additional paid-in-capital due to adoption of accounting standard	$	868	$	-
Cumulative effect to debt discount due to adoption of accounting standard	$	310	$	-
Value of warrants issued for amended debt covenants	$	-	$	15
Issuance of debt for property, plant, and equipment	$	-	$	403
Gain on sale of Parent company common stock	$	-	$	337
Shares of Parent company common stock remitted in exchange for Parent company obligations	$	-	$	193
Parent company obligations assumed by Company	$	-	$	(140)
Loss on settlement of Parent company obligations	$	-	$	53

The Accompanying Notes Are an Integral Part of these Consolidated Financial Statements

AFTERSOFT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2010
(Unaudited)

NOTE 1. MANAGEMENT'S REPRESENTATIONS

The consolidated financial statements included herein have been prepared by Aftersoft Group, Inc. ("Aftersoft" or the "Company"), without audit, pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Certain information normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America has been omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments (consisting primarily of normal recurring accruals) considered necessary for a fair presentation have been included.

Operating results for the three and nine months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending June 30, 2010. It is suggested that the consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2009, which was filed with the SEC on September 25, 2009. The Company has evaluated subsequent events through the filing date of this Quarterly Report on Form 10-Q and determined that no subsequent events have occurred that would require recognition in the condensed consolidated financial statements or disclosure in the notes thereto, other than as disclosed in the accompanying notes.

NOTE 2. BASIS OF PRESENTATION

On November 24, 2008, Auto Data Network, Inc. ("ADNW"), the former parent of Aftersoft, distributed a dividend of the 71,250,000 shares of Aftersoft common shares that ADNW owned at such time in order to complete the previously announced spin-off of Aftersoft's business. The dividend shares were distributed in the form of a pro rata dividend to the holders of record as of November 17, 2008 (the "Record Date") of ADNW's common and convertible preferred stock. Each holder of record of shares of ADNW common and preferred stock as of the close of business on the Record Date was entitled to receive 0.6864782 shares of Aftersoft's common stock for each share of common stock of ADNW held at such time, and/or for each share of ADNW common stock that such holder would own, assuming the convertible preferred stock owned on the Record Date was converted in full. Prior to the spin-off, ADNW owned approximately 77% of Aftersoft's issued and outstanding common stock. Subsequent to and as a result of the spin-off, Aftersoft is no longer a subsidiary of ADNW (see Note 3).

Aftersoft is a leading provider of business and supply chain management solutions primarily to automotive parts manufacturers, retailers, tire and service chains, independent installers and wholesale distributors in the automotive aftermarket. The Company conducts its businesses through wholly owned subsidiaries with operations in Europe and North America. MAM Software Limited ("MAM") is based in Barnsley, United Kingdom ("UK") and Aftersoft Network, NA, Inc. ("ASNA") and MAM Software Inc. ("MAM US") have offices in the United States ("US") in Dana Point, California, and Allentown, Pennsylvania.

AFTERSOFT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2010
(Unaudited)

Going Concern

At March 31, 2010, the Company had cash and cash equivalents of $1,457,000, a decrease of $206,000 from June 30, 2009. During the nine months ended March 31, 2010, the Company had $138,000 of capital expenditures and made payments of $719,000 on debt. In February 2010, the Company started to make payments on the $5,000,000 Term Note, (see Note 5). The payments are approximately $208,000 per month. The Company expects to make the monthly payments on this debt and the other outstanding obligations from operating cash flow. The Company does not expect to be able to make the $3,125,000 balloon payment due in November 2010 on the Term Loan or to pay off the $1,000,000 Revolver due at the same time from internally generated cash flow. The Company is currently seeking debt and/or equity financing and other activities to raise the necessary capital. There can be no assurances that such funding will be available on acceptable terms, in a timely fashion or even available at all.

The accompanying condensed consolidated financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company had an accumulated deficit of $23.7 million and a working capital deficit of $7.7 million at March 31, 2010. These factors, along with the amounts due on the Term Loan in November 2010 as discussed above, raise substantial doubt about the Company’s ability to continue as a going concern.

The Company’s continuation as a going concern is dependent on its ability to obtain additional financing. The condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in the consolidated financial statements.

AFTERSOFT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
March 31, 2010
(Unaudited)

Concentrations of Credit Risk

The Company has no significant off-balance-sheet concentrations of credit risk such as foreign exchange contracts, options contracts or other foreign hedging arrangements.

Cash and Cash Equivalents

The Company maintains cash balances at financial institutions that are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to $250,000. At March 31, 2010 and June 30, 2009, the Company did not have balances in these accounts in excess of the FDIC insurance limits. For banks outside of the United States, the Company maintains its cash accounts at financial institutions which it believes to be credit worthy.

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents to the extent the funds are not being held for investment purposes.

Customers

The Company performs periodic evaluations of its customers and maintains allowances for potential credit losses as deemed necessary. The Company generally does not require collateral to secure its accounts receivable. Credit risk is managed by discontinuing sales to customers who are delinquent. The Company estimates credit losses and returns based on management’s evaluation of historical experience and current industry trends. Although the Company expects to collect amounts due, actual collections may differ from the estimated amounts.

No customers accounted for approximately 10% or more of the Company’s revenue for the three month period ended March 31, 2010. During the nine month period ended March 31, 2010, one customer accounted for 11.5% of the Company’s revenue. No such concentration existed during the three and nine month periods ended March 31, 2009.

No customers accounted for more than 10% or more of the Company’s accounts receivable at March 31, 2010 and June 30, 2009.

Segment Reporting

The Company operates in one reportable segment. The Company evaluates financial performance on a Company-wide basis.

Geographic Concentrations

The Company conducts business in the US, Canada and the UK. For customers headquartered in their respective countries, the Company derived 27% of its revenues from the US, 1% from Canada and 72% from its UK operations during the three months ended March 31, 2010, compared to 33% of its revenues from the US, 2% from Canada and 65% from the UK for the three months ended March 31, 2009.

AFTERSOFT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2010
(Unaudited)

The Company derived 25% of its revenues from the US, 1% from Canada and 74% from its UK operations during the nine months ended March 31, 2010 compared to 26% of its revenues from the US, 2% from Canada and 72% from the UK for the nine months ended March 31, 2009. At March 31, 2010, the Company maintained 62% of its net property and equipment in the UK and the remaining 38% in the US.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted 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 revenues and expenses during the reporting period. Significant estimates made by the Company's management include, but are not limited to, the valuation of derivative liabilities, collectability of accounts receivable, the realizability of inventories, the fair value of investments in available-for-sale securities, the recoverability of goodwill and other long-lived assets, valuation of deferred tax assets and liabilities, and the estimated value of warrants and shares issued for non-cash consideration. Actual results could materially differ from those estimates.

Fair Value of Financial Instruments

The Company's financial instruments consist principally of cash and cash equivalents, investments in available-for-sale securities, accounts receivable, accounts payable, accrued expenses and debt instruments.

Financial assets and liabilities that are remeasured and reported at fair value at each reporting period are classified and disclosed in one of the following three categories:

- Level 1 – Fair value based on quoted prices in active markets for identical assets or liabilities.
- Level 2 – Fair value based on significant directly observable data (other than Level 1 quoted prices) or significant indirectly observable data through corroboration with observable market data. Inputs would normally be (i) quoted prices in active markets for similar assets or liabilities, (ii) quoted prices in inactive markets for identical or similar assets or liabilities or (iii) information derived from or corroborated by observable market data.
- Level 3 – Fair value based on prices or valuation techniques that require significant unobservable data inputs. Inputs would normally be a reporting entity's own data and judgments about assumptions that market participants would use in pricing the asset or liability.

Available-for-Sale Securities

Management determines the appropriate classification of its investments in equity securities with readily determinable fair values that are not accounted for under the equity method of accounting at the time of purchase and re-evaluates such classification as of each balance sheet date. The specific identification method is used to determine the cost basis of securities disposed of. Unrealized gains and losses on the marketable securities are included as a separate component of accumulated other comprehensive loss, net of tax. At March 31, 2010, investments consist of corporate stock with a carrying value of $0. During the year ended June 30, 2009, the Company wrote down its investment in available-for-sale securities to $0, which is now the Company's new cost basis in the securities. The Company will not recognize any gain or loss on the securities unless they are sold.

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AFTERSOFT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
March 31, 2010
(Unaudited)

Inventories

Inventories are stated at the lower of cost or current estimated market value. Cost is determined using the first-in, first-out method. Inventories consist primarily of hardware that will be sold to customers. The Company periodically reviews its inventories and records a provision for excess and obsolete inventories based primarily on the Company’s estimated forecast of product demand and production requirements. Once established, write-downs of inventories are considered permanent adjustments to the cost basis of the obsolete or excess inventories.

Property and Equipment

Property and equipment are stated at cost, and are being depreciated using the straight-line method over the estimated useful lives of the related assets, ranging from three to five years. Leasehold improvements are amortized using the straight-line method over the lesser of the estimated useful lives of the assets or the related lease terms. Equipment under capital lease obligations is depreciated over the shorter of the estimated useful lives of the related assets or the term of the lease. Maintenance and routine repairs are charged to expense as incurred. Significant renewals and betterments are capitalized. At the time of retirement or other disposition of property and equipment, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the consolidated statements of operations. Depreciation expense was $51,000 and $43,000 for the three months ended March 31, 2010 and 2009, respectively, and $154,000 and $127,000 for the nine months ended March 31, 2010 and 2009, respectively.

Software Development Costs

Costs incurred to develop computer software products to be sold or otherwise marketed are charged to expense until technological feasibility of the product has been established. Once technological feasibility has been established, computer software development costs (consisting primarily of internal labor costs) are capitalized and reported at the lower of amortized cost or estimated realizable value. Purchased software development cost is recorded at its estimated fair market value. When a product is ready for general release, its capitalized costs are amortized using the straight-line method over a period of three years. If the future market viability of a software product is less than anticipated, impairment of the related unamortized development costs could occur, which could significantly impact the recorded loss of the Company. Amortization expense was $47,000 and $25,000 for the three months ended March 31, 2010 and 2009, respectively, and $153,000 and $110,000 for the nine months ended March 31, 2010 and 2009, respectively.

Amortizable Intangible Assets

Intangible assets that have finite useful lives be amortized over their useful lives. Amortizable intangible assets consist of completed software technology, customer relationships and automotive data services and are recorded at cost. Completed software technology and customer relationships are amortized using the straight-line method over their estimated useful lives of 8 to 10 years, and automotive data services are amortized using the straight-line method over their estimated useful lives of 20 years. Amortization expense on amortizable intangible assets was $178,000 and $185,000 for the three months ended March 31, 2010 and 2009, respectively, and $540,000 and $544,000 for the nine months ended March 31, 2010 and 2009, respectively.

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AFTERSOFT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2010
(Unaudited)

Goodwill

Goodwill and intangible assets that have indefinite useful lives are not to be amortized but rather be tested at least annually for impairment.

Goodwill is subject to impairment reviews by applying a fair-value-based test at the reporting unit level, which generally represents operations one level below the segments reported by the Company. An impairment loss is recorded for any goodwill that is determined to be impaired, which resulted in an $850,000 impairment charge in fiscal 2009. The impairment related to ASNA as a result of continuing operating losses and less optimistic operating forecasts. The estimated fair value of ASNA was determined using present value techniques. There can be no assurance, however, that market conditions will not change or demand for the Company's products and services will continue which could result in additional impairment of goodwill in the future. The Company performs impairment testing on all existing goodwill at least annually.

For the nine months ended March 31, 2010, goodwill activity was as follows:

Balance, July 1, 2009	$ 9,548,000
Effect of exchange rate changes	(624,000)
Balance, March 31, 2010	$ 8,924,000

Long-Lived Assets

The Company's management assesses the recoverability of long-lived assets (other than goodwill discussed above) upon the occurrence of a triggering event by determining whether the depreciation and amortization of long-lived assets over their remaining lives can be recovered through projected undiscounted future cash flows. The amount of long-lived asset impairment, if any, is measured based on fair value and is charged to operations in the period in which long-lived asset impairment is determined by management. At March 31, 2010, the Company's management believes there is no impairment of its long-lived assets. There can be no assurance, however, that market conditions will not change or demand for the Company's products and services will continue, which could result in impairment of long-lived assets in the future.

Issuance of Stock to Non-Employees for Non-Cash Consideration

All issuances of the Company's stock to non-employees for non-cash consideration have been assigned a per share amount equaling either the market value of the shares issued or the value of consideration received, whichever is more readily determinable. The majority of the non-cash consideration received pertain to services rendered by consultants and others.

The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor's performance is complete. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized over the term of the consulting agreement. An asset acquired in exchange for the issuance of fully vested, non-forfeitable equity instruments should not be presented or classified as an offset to equity on the grantor's balance sheet once the equity instrument is granted for accounting purposes.

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AFTERSOFT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2010
(Unaudited)

Stock-Based Compensation

For valuing stock options awards, the Company has elected to use the Black-Scholes valuation model. For the expected term, the Company has historically used a simple average of the vesting period and the contractual term of the option. Volatility is a measure of the amount by which the Company's stock price is expected to fluctuate during the expected term of the option. For volatility the Company considers its own volatility as applicable for valuing its options and warrants. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The risk-free interest rate is based on the relevant US Treasury Bill Rate at the time each grant. The dividend yield represents the dividend rate expected to be paid over the option's expected term; the Company currently has no plans to pay dividends.

On June 12, 2008, the Company's shareholders approved the Aftersoft Group Inc. 2007 Long-Term Stock Incentive Plan. The maximum aggregate number of shares of common stock that may be issued under the plan, including stock awards, and stock appreciation rights is limited to 15% of the shares of common stock outstanding on the first trading day of any fiscal year. The Company issued restricted shares to its management and board members in fiscal 2009 and to board members in fiscal 2010 under this plan (see Note 7).

Revenue Recognition

Software license revenue is recognized when persuasive evidence of an arrangement exists, delivery of the product component has occurred, the fee is fixed and determinable, and collectability is probable. If any of these criteria are not met, revenue recognition is deferred until such time as all of the criteria are met.

The Company accounts for delivered elements in accordance with the residual method when arrangements include multiple product components or other elements and vendor-specific objective evidence exists for the value of all undelivered elements. Revenues on undelivered elements are recognized once delivery is complete.

In those instances where arrangements include significant customization, contractual milestones, acceptance criteria or other contingencies (which represents the majority of the Company's arrangements), the Company accounts for the arrangements using contract accounting, as follows:

1) When customer acceptance can be estimated, expenditures are capitalized as work in process and deferred until completion of the contract at which time the costs and revenues are recognized.

2) When customer acceptance cannot be estimated based on historical evidence, costs are expensed as incurred and revenue is recognized at the completion of the contract when customer acceptance is obtained.

The Company records amounts collected from customers in excess of recognizable revenue as deferred revenue in the accompanying consolidated balance sheets.

Revenues for maintenance agreements, software support, on-line services and information products are recognized ratably over the term of the service agreement.

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AFTERSOFT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2010
(Unaudited)

Advertising Expense

The Company expenses advertising costs as incurred. For the three months ended March 31, 2010 and 2009, advertising expense totaled $5,000 and $30,000, respectively. For the nine months ended March 31, 2010 and 2009, advertising expense totaled $37,000 and $58,000, respectively.

Foreign Currency

Management has determined that the functional currency of its subsidiaries is the local currency. Assets and liabilities of the UK subsidiaries are translated into US dollars at the period-end exchange rates. Income and expenses are translated at an average exchange rate for the period and the resulting translation (loss) adjustments are accumulated as a separate component of stockholders' equity, which totaled ($437,000) and ($458,000) for the three months ended March 31, 2010 and 2009, respectively, and ($545,000) and ($4,101,000) for the nine months ended March 31, 2010 and 2009, respectively.

Foreign currency gains and losses from transactions denominated in other than respective local currencies are included in income. The Company had no foreign currency transaction gains (losses) for any period presented.

Comprehensive Loss

Comprehensive loss includes all changes in equity (net assets) during a period from non-owner sources. For the three and nine months ended March 31, 2010, the components of comprehensive loss consist of changes in foreign currency translation losses. For the three and nine months ended March 31, 2009, comprehensive loss also consisted of changes in unrealized loss on investments in available-for-sale securities.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period the enactment occurs. Deferred taxation is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

AFTERSOFT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2010
(Unaudited)

Basic and Diluted Earnings (Loss) Per Share

Basic earnings (loss) per common share are computed based on the weighted average number of shares outstanding for the period. Diluted earnings (loss) per share are computed by dividing net income (loss) by the weighted average shares outstanding assuming all potential dilutive common shares were issued. During periods in which the Company incurs losses, common stock equivalents, if any, are not considered, as their effect would be anti-dilutive. For the three and nine months ended March 31, 2010 and 2009, there were no dilutive shares. A total of 22,498,135 common stock purchase warrants and debt convertible into 3,386,616 shares were excluded from the computation of diluted loss per share as their effect would have been anti-dilutive for the three and nine months ended March 31, 2010. For the three and nine months ended March 31, 2009 a total of 21,798,135 common stock purchase warrants and debt convertible into 3,361,345 shares were excluded from the computation of diluted loss per share as their effect would have been anti-dilutive. Had the Company reported net income in any of these periods, none of these shares would have been included in the diluted earnings per share.

Recent Accounting Pronouncements

In September 2009, the accounting standard regarding multiple deliverable arrangements was updated to require the use of the relative selling price method when allocating revenue in these types of arrangements. This method allows a vendor to use its best estimate of selling price if neither vendor specific objective evidence nor third party evidence of selling price exists when evaluating multiple deliverable arrangements. This standard update must be adopted no later than July 1, 2010 and may be adopted prospectively for revenue arrangements entered into or materially modified after the date of adoption or retrospectively for all revenue arrangements for all periods presented. The Company is currently evaluating the impact this standard update will have on its consolidated financial statements.

In September 2009, the accounting standard regarding arrangements that include software elements was updated to require tangible products that contain software and non-software elements that work together to deliver the products essential functionality to be evaluated under the accounting standard regarding multiple deliverable arrangements. This standard update must be adopted no later than July 1, 2010 and may be adopted prospectively for revenue arrangements entered into or materially modified after the date of adoption or retrospectively for all revenue arrangements for all periods presented. The Company is currently evaluating the impact this standard update will have on its consolidated financial statements.

In January 2010, the Financial Accounting Standards Board issued guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance became effective for the Company with the reporting period beginning January 1, 2010, except for the disclosure on the roll forward activities for Level 3 fair value measurements, which will become effective for the Company with the reporting period beginning July 1, 2011. Other than requiring additional disclosures, adoption of this new guidance will not have a material impact on the Company’s consolidated financial statements.

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Effective July 1, 2009, the Company adopted the accounting standard that provides guidance for determining whether an equity-linked financial instrument, or embedded feature, is indexed to an entity's own stock. The standard applies to any freestanding financial instruments or embedded features that have the characteristics of a derivative, and to any freestanding financial instruments that are potentially settled in an entity's own common stock. As a result of the adoption, 5,083,333 of the Company's issued and outstanding common stock purchase warrants previously treated as equity pursuant to the derivative treatment exemption were no longer afforded equity treatment. These warrants have an average exercise price of $0.21 and expiration dates of December 31, 2013. In addition, amounts related to the embedded conversion feature of convertible notes issued previously treated as equity pursuant to the derivative treatment exemption were also no longer afforded equity treatment. As such, effective July 1, 2009, the Company reclassified the fair value of these common stock purchase warrants and recorded the fair value of the embedded conversion features, which both have exercise price reset features, from equity to liability status as if these warrants and embedded conversion features were treated as a derivative liability since the earliest date of issue in December 2007. On July 1, 2009, the Company reclassified from additional paid-in capital, as a cumulative effect adjustment, approximately $868,000 to derivative liabilities, increased the debt discount and derivative liabilities by a gross amount of approximately $310,000, decreased accumulated deficit by approximately $619,000 for the change in fair value of derivative liabilities for the period from December 2007 through June 30, 2009 and increased accumulated deficit by approximately $158,000 for additional amortization of debt discount for the period from December 2007 through June 30, 2009. The fair value of the common stock purchase warrants was approximately $305,000 and the embedded conversion feature was approximately $0 on March 31, 2010. The total value of these derivative liabilities declined from $558,000 to $305,000 for the nine months ended March 31, 2010 and increased from approximately $243,000 to $305,000 for the three months ended March 31, 2010. As such, the Company recognized approximately $253,000 gain from the change in fair value of the derivative liabilities for the nine months ended March 31, 2010 and recognized a loss of $62,000 for the three months ended March 31, 2010.

All future changes in the fair value of these warrants and embedded conversion features will be recognized in earnings until such time as the warrants are exercised or expire and the debt is converted to common stock or repaid. These common stock purchase warrants and conversion feature do not trade in an active securities market, and as such, the Company estimates the fair value of these warrants and conversion feature using the Black-Scholes option pricing model using the following assumptions:

	March 31, 2010	July 1, 2009
Annual dividend yield	0.0%	0.0%
Expected life (years)	0.67 - 4.00	4.50
Risk-free interest rate	0.39%-2.65%	0.54%-2.51%
Expected volatility	85%	175%

Expected volatility is based primarily on historical volatility. Historical volatility was computed using weekly pricing observations for recent periods. The Company believes this method produces an estimate that is representative of the Company's expectations of future volatility over the expected term of these warrants and conversion features. The Company currently has no reason to believe future volatility over the expected remaining life of these warrants and conversion feature is likely to differ materially from historical volatility. The expected life is based on the remaining term of the warrants and conversion features. The risk-free rate is based on the US Treasury rate that corresponds to the expected term of the warrants and conversion feature.

Determining which category an asset or liability falls within the hierarchy requires significant judgment. The Company evaluates its hierarchy disclosures each quarter. Liabilities measured at fair value on a recurring basis are summarized as follows (unaudited):

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	Level 1	Level 2	Level 3	Total
Fair Fair value of warrants	$ -	$ -	$ 305,000	$ 305,000
Fair Fair value of embedded conversion feature related to convertible notes	-	-	-	-
Total	$ -	$ -	$ 305,000	$ 305,000

The following table details the approximate fair value measurements within the fair value hierarchy of the Company's derivative liabilities using Level 3 Inputs:

Balance as of June 30, 2009	$ -
Cumulative effect of adoption	558,000
Change in fair value	(253,000)
Balance as of March 31, 2010	$ 305,000

The Company has no assets that are measured at fair value on a recurring basis. There were no assets or liabilities measured at fair value on a non-recurring basis during the three and nine months ended March 31, 2010.

NOTE 3. TRANSACTIONS WITH FORMER PARENT COMPANY

On November 24, 2008 (the "Dividend Distribution Date"), ADNW distributed the dividend of the 71,250,000 shares of the Company's common stock that ADNW owned at such time in order to complete the spin-off of Aftersoft's businesses. The dividend shares were distributed in the form of a pro rata dividend to the holders of record as of November 17, 2008 (the "Record Date") of ADNW's common and convertible preferred stock. Each holder of record of shares of ADNW common and preferred stock as of the close of business on the Record Date was entitled to receive 0.6864782 shares of the Company's common stock for each share of common stock of ADNW held at such time, and/or for each share of ADNW common stock that such holder would own, assuming the convertible preferred stock owned on the Record Date was converted in full. Prior to the spin-off, ADNW owned approximately 77% of the Company's issued and outstanding common stock. Subsequent to and as a result of the spin-off, the Company is no longer a subsidiary of ADNW.

ADNW attempted to settle an old outstanding obligation of ADNW of $775,000 with Mr. Blumenthal (see Note 6) for 4,400,000 shares of ADNW common stock. The value of the shares declined and Mr. Blumenthal elected not to accept the ADNW shares as full compensation, and later demanded that the Company settle ADNW's liability with additional or different consideration. In April 2008, the Company accepted the 4,400,000 shares from ADNW valued at $484,000 in exchange for attempting to settle ADNW's liability. The difference between the value of the ADNW shares and the amount of ADNW's initial obligation of $291,000 was recorded as general and administrative expense in the consolidated statement of operations during such period.

In February 2010, Mr. Blumenthal commenced a civil action against the Company (see Note 6).

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During the fiscal year ended June 30, 2009, the Company liquidated 5,231,622 common shares of ADNW for net proceeds of $889,000, and issued 2,000,000 common shares of ADNW in settlement of ADNW obligations. As a result of the Company's ownership of certain ADNW securities, the Company received approximately 13,965,295 shares of its own common stock in connection with the spin-off dividend distribution. On December 31, 2008, the Company retired 13,722,112 of the shares. The remaining 243,183 shares were used by the Company for rounding of fractional shares issued in respect of the spin-off dividend, to make adjustments for the benefit of the holders of ADNW's Series B Convertible Preferred Stock which received fewer shares in connection with the spin-off than the number to which they were entitled as a result of a calculation error relating to the Series B conversion rate, and for other minor adjustments.

As a result of the above transactions, the Company no longer owns any shares of ADNW stock as of June 30, 2009.

NOTE 4. INVESTMENT IN AVAILABLE -FOR-SALE SECURITIES

The Company received a total of 4,433,284 shares of First London PLC (formerly First London Securities) from the sale of EXP. The shares had been listed for trading on the London Plus Exchange, but effective September 30, 2009, the shares were delisted.

The Company owns approximately 3% of the outstanding shares of First London PLC, and completely wrote down its investment and recognized a loss of $4,723,000 because of an other-than-temporary impairment as of June 30, 2009. The recognition of this impairment loss in the statement of operations resulted in the reversal in other comprehensive loss of a previously unrealized loss of $184,000 for the year ended June 30, 2009. At March 31, 2009, investments consist of corporate stock with an unrealized loss of $932,000. At March 31, 2010, the Company still holds all of the shares received.

Factors considered in determining whether impairments are other-than-temporary include (i) the length of time and extent to which fair value has been less than the amortized cost basis, (ii) the financial condition and near-term prospects of the investee and (iii) the Company's intent and ability to hold an investment for a period of time sufficient to allow for any anticipated recovery in market value.

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NOTE 5. LONG -TERM DEBT

Long-term debt consists of the following as of March 31, 2010 and June 30, 2009:

	March 31, 2010	June 30, 2009
ComVest term loan, net of debt discount of $141,000 and $303,000	$ 4,443,000	$ 4,697,000
ComVest revolver	1,000,000	1,000,000
Secured notes	271,000	388,000
McKenna note	-	150,000
Homann note	-	63,000
Other notes	13,000	13,000
	5,727,000	6,311,000
Less current portion	(5,540,000)	(1,598,000)
Long term portion	$ 187,000	$ 4,713,000

ComVest Loan Agreement

On December 21, 2007, the Company entered into a Revolving Credit and Term Loan Agreement (the "Loan Agreement") with ComVest Capital LLC ("ComVest"), as lender, pursuant to which ComVest agreed to extend a $1,000,000 secured revolving Credit Facility and a $5,000,000 Term Loan. The Loan Agreement contains customary affirmative and negative covenants, including maximum limits for capital expenditures per fiscal year, and ratios for liquidity. In connection with obtaining a waiver for a violation of loan covenants at March 31, 2008, the Company reduced the exercise price from $0.3125 per share to $0.11 per share for one million warrants held by ComVest (see below), recognizing the incremental fair value of the modified warrants of $24,000 as additional interest expense.

As of June 30, 2008, in connection with obtaining a waiver for a violation of loan covenants, the Company and ComVest amended the Loan Agreement and modified certain covenants. The cash flow ratio coverage was reduced and the lender agreed to extend from January 1, 2009 until January 1, 2010 the start of the loan amortization. As part of the amendment, ComVest required the Company to reduce the exercise price from $0.39 to $0.11 for 2,000,000 warrants held by ComVest (see below). The incremental fair value of the modified warrants is $15,000, which was recorded as an additional debt discount and is being amortized over the remaining life of the term loan.

As of December 31, 2008, in connection with obtaining a waiver for violation of certain loan covenants, the Company and ComVest agreed to increase the interest on the $1,000,000 Credit Facility (described below) from 9.5% to 11%. The amendment did not meet the requirements of a Modification or Exchange of Debt Instruments, therefore no adjustment to the financial statements was required.

Pursuant to a waiver and amendment, the annual interest rate was restored to 9.5% as the Company became compliant with the covenant as of the close of the quarter ended on March 31, 2009.

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Effective April 22, 2009, the Company and ComVest amended the loan agreement and modified certain covenants relating to the required ratio of (a) Earning Before Interest, Depreciation, and Amortization, minus capital expenditures incurred to (b) debt service (all interest and principal payments) ("Debt Service") (the "EBIDA Ratio") contained in the Loan Agreement (the "Covenant"). Pursuant to the April 22, 2009 Amendment, the Covenant requires that the applicable minimum EBIDA Ratio be met as of the end of the quarter for such fiscal quarter. Prior to the April 22, 2009 Amendment, the Covenant required that the applicable minimum EBIDA Ratio be met as of the end of each quarter of any fiscal year for the four (4) consecutive quarters then ended. The minimum EBIDA Ratios themselves were not modified by the April 22, 2009 Amendment, and remain at 0.71:1.00 for the quarter ended March 31, 2009; 0.50:1.00 for the quarter ended June 30, 2009; and 1.25:1.00 for the quarters ended on and after September 30, 2009.

After obtaining the above waivers, the Company was not in violation and any loan covenants for the period ending June 30, 2009.

As of March 31, 2010, the Company did not meet the EBIDA Ratio Covenant of 1.25:1 as required by the Loan Agreement, and Amendment. Our failure to maintain this ratio constitutes an event of default under the terms of the Loan Agreement. Under the terms of the Loan Agreement, if any event of default occurs, the full principal amount of the Note, together with interest and other amounts owing in respect thereof, to the date of acceleration shall become, at ComVest's election, immediately due and payable in cash. The Company is in negotiations to resolve the default with ComVest.

Credit Facility and Revolving Credit Note. Pursuant to the terms of the Loan Agreement, the Credit Facility became available on December 21, 2007 (the "Closing Date"), and the initial maturity date was November 30, 2009. The Company had the option of extending the maturity date of the Credit Facility for one additional year, through November 30, 2010 upon written notice to ComVest provided that no default or event of default have occurred and are continuing at that time, and provided that the maturity date of the Credit Facility has not been accelerated due to prepayment in full of the Term Loan. On September 9, 2009, the Company notified ComVest of its election to extend the maturity date of the credit facility to November 30, 2010.

The Credit Facility provides for borrowing capacity of an amount up to (at any time outstanding) the lesser of the borrowing base at the time of each advance under the Credit Facility, or $1,000,000. The borrowing base at any time is an amount determined in accordance with a borrowing base report the Company is required to provide to ComVest, based upon the Company's Eligible Accounts and Eligible Inventory, as such terms are defined in the Loan Agreement.

In connection with the Credit Facility, the Company issued a Revolving Credit Note (the "Credit Note") payable to ComVest in the principal amount of $1,000,000, bearing interest at a rate per annum equal to the greater of (a) the prime rate, as announced by Citibank, N.A. from time to time, plus two percent (2%), or (b) nine and one-half percent (9.5%). The interest rate, which was 9.5% from the Closing Date through December 31, 2008, had been increased from 9.5% to 11% in connection with obtaining a waiver from ComVest for violation of certain loan covenants as described above. As of April 1, 2009, the Company had regained compliance with the loan covenants and the interest rate was reduced from 11% back to 9.5%. The applicable interest rate will be increased by four hundred (400) basis points during the continuance of any event of default under the Loan Agreement. Interest is computed on the daily unpaid principal balance and is payable monthly in arrears on the first day of each calendar month commencing January 1, 2008. Interest is also payable upon maturity or acceleration of the Credit Note.

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The Company has the right to prepay all or a portion of the principal balance on the Credit Note at any time, upon written notice, with no penalty. The Credit Note is secured pursuant to the provisions of certain Security Documents.

The Company also has the option to terminate the Credit Facility at any time upon five business days' prior written notice, and upon payment to ComVest of all outstanding principal and accrued interest of the advances on the Credit Facility, and prorated accrued commitment fees. The Credit Facility commitment also terminates, and all obligations become immediately due and payable, upon the consummation of a Sale, which is defined in the Loan Agreement as certain changes of control or sale or transfers of a material portion of the Company's assets.

At March 31, 2010, the Company had drawn down the $1,000,000 Credit Facility in full. The interest rate as of March 31, 2010 was 9.5%.

Term Loan and Convertible Term Note. Pursuant to the terms of the Loan Agreement, ComVest extended to the Company a Term Loan in the principal amount of $5,000,000, on the Closing Date. The Term Loan is a one-time loan, and unlike the Credit Facility, the principal amount is not available for re-borrowing.

The Term Loan is evidenced by a Convertible Term Note (the "Term Note") issued by the Company on the Closing Date, and payable to ComVest in the principal amount of $5,000,000. The Term Note bears interest at a rate of eleven percent (11%) per annum, except that during the continuance of any event of default, the interest rate will be increased to sixteen percent (16%).

As amended (see "ComVest Loan Agreement" above), the Term Note is repayable in 10 equal monthly installments of approximately $208,333, payable on first day of each calendar month commencing February 1, 2010 through November 1, 2010, with the balance of $2,708,333 due on November 30, 2010.

The Company has the option to prepay the principal balance of the Term Note in whole or in part, at any time, upon 15 days' prior written notice. The Company will be required to prepay the Term Loan in whole or part under certain circumstances. In the event that the Company prepays all or a portion of the Term

Loan, the Company will ordinarily pay a prepayment premium in an amount equal to (i) three percent (3%) of the principal amount being prepaid if such prepayment is made or is required to be made on or prior to the second anniversary of the Closing Date, and (ii) one percent (1%) of the principal amount being prepaid if such prepayment is made or is required to be made subsequent to the second anniversary of the Closing Date.

The principal and interest payable on the Term Note is convertible into shares of the Company's common stock at the option of ComVest. In addition, the Company may require conversion of the principal and interest under certain circumstances. The initial conversion price was $1.50 per share. The number of shares issuable upon conversion of the Term Note (the "Conversion Shares"), and/or the conversion price, may be proportionately adjusted in the event of any stock dividend, distribution, stock split, stock combination, stock consolidation, recapitalization or reclassification or similar transaction. In addition, the number of Conversion Shares, and/or the conversion price may be adjusted in the event of certain sales or issuances of shares of the Company's common stock, or securities entitling any person to acquire shares of common stock, at any time while the Term Note is outstanding, at an effective price per share which is less than the then-effective conversion price of the Term Note (see Note 2).

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On July 3, 2008, the conversion price for the Term Note was reduced from $1.50 to $1.49 as a result of certain anti-dilution protection contained therein following the issuance by the Company of additional shares of common stock and warrants to purchase common stock. Consequently, the number of shares issuable upon conversion of the principal amount of the Term Note was increased to 3,361,345 shares from 3,333,333 shares, which was accounted for in the change in fair value of derivative liabilities.

The Company incurred a closing fee of $100,000 in connection with the Term Loan. In connection with the Credit Facility, the Company has agreed to pay an annual commitment fee of $15,000, on December 1 of each year, commencing December 1, 2008, and on any termination date (pro-rated, if applicable), that the Credit Facility is in effect, as well as a collateral monitoring and administrative fee of $1,500 per month.

The expenses of this financing were approximately $641,000, which included a finder's fee of $300,000, lender fees of $190,000 and professional and due diligence fees of approximately $151,000. The net proceeds to the Company were approximately $4,359,000. The fees were allocated between debt issuance costs and debt discount. The debt issuance costs of $478,000 were recorded on the date of entering into the agreement in other assets in the accompanying consolidated balance sheets and are being amortized and charged to interest expense over the term of the loan using the effective interest method. The balance of the Debt issuance costs was approximately $22,000 as of March 31, 2010 and is included in Other assets in the accompanying consolidated balance sheet. Amortization of the issuance costs was approximately $25,000 and $114,000 for the three and nine months ended March 31, 2010, respectively, and $62,000 and $194,000 for the three and nine months ended March 31, 2009, respectively. A debt discount of $163,000 was recorded in the consolidated balance sheet on the date of entering into the agreement as a reduction in the carrying value of the debt, and is being amortized and charged to interest expense over the term of the loan using the effective interest method. The Company also issued warrants to ComVest to purchase shares of the Company's Common Stock (see below). The relative fair value of these warrants was approximately $868,000 and recorded in the debt discount. Additionally, due to the adoption of the accounting standard that provides guidance for determining whether an equity-linked financial instrument, or embedded feature, is indexed to an entity's own stock, the Company recorded an additional $310,000 of debt discount as if incurred on the date of the agreement (see Note 2). The balance of the debt discount is approximately $141,000 as of March 31, 2010.

Warrants. In connection with the Loan Agreement, the Company issued warrants to ComVest to purchase the following amounts of shares of the Company's Common Stock, exercisable after the Closing Date and expiring December 31, 2013: a) Warrant to purchase 1,000,000 shares of common stock at an exercise price of $0.3125 per share; b) Warrant to purchase 2,000,000 shares of common stock at an exercise price of $0.39 per share; and c) Warrant to purchase 2,083,333 shares of common stock at an exercise price of $0.3625 per share; (each, a "Warrant") (the 5,083,333 shares collectively issuable upon exercise of the Warrants are referred to herein as the "Warrant Shares"). The exercise prices of certain of these warrants were amended, as described under "ComVest Loan Agreement" above. The relative fair value of the Warrant Shares, at the time of issuance was $868,000 using a Black Scholes valuation model and also contains a cashless exercise feature. The warrant valuation was computed using a 3.5% risk-free interest rate, a 99% volatility and a six-year life. The value of the Warrant Shares is included in debt discount, is recorded in the consolidated balance sheet as a reduction in the carrying value of the debt, and is being amortized and charged to interest expense over the term of the loan using the effective interest method.

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The number of shares issuable upon exercise of the Warrants, and/or the applicable exercise prices, may be proportionately adjusted in the event of any stock dividend, distribution, stock split, stock combination, stock consolidation, recapitalization or reclassification or similar transaction. In addition, the number of shares issuable upon exercise of the Warrant Shares, and/or the applicable exercise prices may be adjusted in the event of certain issuances of shares of the Company’s common stock, or securities entitling any person to acquire shares of common stock, at any time while the Warrants are outstanding, at an effective price per share which is less than the then-effective exercise prices of the Warrants.

The Company also granted certain registration rights and piggyback registration rights to the holder(s) of the securities underlying the Term Note and Warrants. The registration for the sales of the securities underlying the Term Note and Warrants was declared effective by the SEC on May 1, 2009.

The Company issued warrants to purchase 250,000 shares of common stock as compensation to a consultant for assistance in securing the $5,000,000 Term Loan. The warrants were valued at $42,000 using a Black-Scholes valuation model and are included in debt issuance cost. The warrant valuation was computed using a 3.5% risk free interest rate, a 99% volatility and a six-year life.

Amortization of debt discount was $114,000 and $123,000, and amortization of debt issuance costs was $22,000 and $62,000, for the three months ended March 31, 2010 and 2009, respectively. Amortization of debt discount was $314,000 and $400,000, and amortization of debt issuance costs was $114,000 and $194,000 for the nine months ended March 31, 2010 and 2009, respectively. The unamortized debt discount related to the debt issuance costs, the warrants and the conversion feature was $0, $113,000 and $28,000, respectively.

Homann Note

The Company repaid the note payable to Homann Tire LTD (“Homann”) during the three months ended September 30, 2009. This note in the principal amount of $125,000, with interest at 8% per annum, had an initial maturity date of April 29, 2009. The terms of the note included interest only payments of $833 per month. A principal payment of $25,000 was made in April 2007. The remaining balance of $125,000 was payable in April 2009. On April 3, 2009, the Company amended the payment terms and agreed to repay the note in six monthly installments of $21,450 which includes interest at 10%. The amendment did not meet the requirements of a Modification or Exchange of Debt Instruments, therefore no adjustment to the financial statements was required. The final payment was made in September 2009.

McKenna Note

The Company had issued an unsecured note payable to Mr. A. McKenna in the original amount of $825,000 with interest at 8% per annum The note was initially due in July 2009, and was payable in 24 monthly installments of $37,313 including interest. In February 2009, the Company orally advised Mr. McKenna that it would reduce the monthly payment to $18,650 per month, but there was no written amendment to the note between the Company and Mr. McKenna. Since February 2009, the note holder accepted the reduced monthly payments, and did not notify the Company of any violations of the terms and conditions of the payment agreement. The Company repaid the note in full during the three month period ended March 31, 2010.

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Secured Notes

The Company has secured notes totaling $289,000 payable over 12 to 48 months with monthly payments of $4,137 and quarterly payments of $6,278. The notes bear interest rates of 5.49% to 9.54% and are secured by leasehold improvements and equipment with a carrying value of $289,000.

NOTE 6. COMMITMENTS AND CONTINGENCIES

Legal Matters

From time to time, the Company is subject to various legal claims and proceedings arising in the ordinary course of business. The ultimate disposition of these proceedings could have a materially adverse effect on the consolidated financial position or results of operations of the Company.

(1) On August 1, 2007, the Company and Mr. McKenna entered into an agreement that settled all outstanding actions by Mr. McKenna against the Company and its subsidiaries related to the initial action against CarParts Technologies, Inc., which is now known as ASNA. Pursuant to the settlement, the Company paid Mr. McKenna $2,000,000 in cash, issued him an 8% promissory note in the principal amount of $825,000, which is payable over 24 months, and issued Mr. McKenna 1,718,750 shares of the Company’s Common Stock, which represented $825,000 at a value of $0.48 per share (the closing price of the Company’s Common Stock on the date of settlement). Mr. McKenna was also entitled to warrants to purchase an equivalent number of shares of Common Stock at the same price. Upon entering this agreement all parties agreed to withdraw all existing litigation and claims. The Company finalized its agreement with McKenna on December 6, 2007 and revised its litigation accrual to $3,650,000 to reflect the settlement. The shares were issued in August 2007. In November 2007, the Company amended the settlement agreement and issued 1,718,750 warrants to purchase Common Stock for $0.48 per share. The warrants were issued to replace the Common Stock included in the settlement agreement. In February 2009, the Company orally advised Mr. McKenna that it would reduce the monthly payment on the note to $18,650 per month from $37,313 per month, but there is no written amendment to the note between the Company and Mr. McKenna. Since February 2009, the note holder accepted the reduced monthly payments, and did not notify the Company of any violations of the terms and conditions of the payment agreement. The Company repaid the note in full during the three month period ended March 31, 2010.

(2) The Company entered into a settlement agreement with Mr. Arthur Blumenthal, a former shareholder of Anderson BDG, Inc. Mr. Blumenthal’s lawsuit against the Company’s parent ADNW emanated from an agreement Mr. Blumenthal had with a subsidiary of the Company, ASNA (f/k/a CarParts Technologies, Inc.) for the purchase of Anderson BDG, that had not been settled although it was past due. The Company assumed the liability as part of a plan of spinning off certain businesses into the Company and renegotiated the agreement with Mr. Blumenthal, the terms of which required the Company to make a payment of $50,000 cash and the issuance to Mr. Blumenthal and registration of 300,000 shares of the Company’s common stock, which were issued in fiscal 2007 and valued at $0.48 per share, (the closing price of the Company’s common stock on the date of settlement) or $144,000. The Company subsequently completely settled the lawsuit with Mr. Blumenthal and repaid his notes in fiscal 2008.

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On February 17, 2010, Mr. Blumenthal commenced a civil action against the Company, certain subsidiaries, and current and former officers and directors of the Company. On April 16, 2010, the Company settled the litigation with Mr. Blumenthal for $1,250,000. On April 19, 2010, the Company paid Mr. Blumenthal $350,000. The balance of the settlement amount is payable through November 2012 in equal monthly payments of $31,750, which includes interest at 7%. In the event the Company defaults in payment, Mr. Blumenthal may elect to reinstitute the original litigation.

As of March 31, 2010 the Company has accrued $1,250,000 for the settlement of this liability which is included in the consolidated balance sheet of the accompanying financial statements.

Indemnities and Guarantees

The Company has made certain indemnities and guarantees, under which it may be required to make payments to a guaranteed or indemnified party, in relation to certain actions or transactions. The Company indemnifies its directors, officers, employees and agents, as permitted under the laws of the State of Delaware. In connection with its facility leases, the Company has indemnified its lessors for certain claims arising from the use of the facilities. In connection with its customers' contracts the Company indemnifies the customer that the software provided does not violate any US patent. The duration of the guarantees and indemnities varies, and is generally tied to the life of the agreement. These guarantees and indemnities do not provide for any limitation of the maximum potential future payments the Company could be obligated to make. Historically, the Company has not been obligated nor incurred any payments for these obligations and, therefore, no liabilities have been recorded for these indemnities and guarantees in the accompanying consolidated balance sheet.

The Company has agreed to indemnify ComVest and its directors, officers, employees, attorneys and agents against, and to hold ComVest and such persons harmless from, any and all losses, claims, damages and liabilities and related expenses, including reasonable counsel fees and expenses, they may incur, arising out of, related to, or as a result of, certain transactions or events in connection with the Credit Facility and Term Loan (see Note 5).

NOTE 7. STOCKHOLDERS' EQUITY

On July 3, 2008, the Company sold to an investor group, 5,231,622 shares of ADNW common stock for $889,000 before fees and expenses. The Company incurred cash expenses and fees of approximately $48,000 and agreed to issue to the selling agent five-year warrants to purchase for $0.30 per share 1,000,000 shares of common stock. The warrants were valued at $137,978 using a Black-Scholes valuation model, with a risk free interest rate of 1.84 %, a volatility of 117% and a five-year life. This transaction resulted in a gain of $337,000, which is recorded as an increase to additional paid-in capital.

During the quarter ended September 30, 2008, the Company reached an agreement with three creditors of ADNW, and issued them 2,000,000 shares of ADNW common stock owned by the Company in satisfaction of certain obligations of ADNW totaling $140,000. At the time of settlement, the ADNW shares were trading at less than the carrying value of the shares held by the Company, and the Company incurred a loss of $53,000 on the settlement, which is recorded as a reduction to additional paid-in-capital.

AFTERSOFT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
March 31, 2010
(Unaudited)

During the quarter ended September 30, 2008, the Company approved the issuance of 483,000 shares to the non-management members of the Board of Directors under the Company's 2007 Long-Term Incentive Plan. The shares are being issued over a three-year period. On October 6, 2008, the Company issued 47,890 shares of these awards, which were valued at $7,184.

On October 6, 2008, the Company issued a director of the Company 35,000 shares of common stock in lieu of $8,750 of cash compensation.

On November 24, 2008 (the "Dividend Distribution Date"), ADNW distributed the dividend of the 71,250,000 shares of the Company's common stock that ADNW owned at such time in order to complete the spin-off of the Company's businesses. The dividend shares were distributed in the form of a pro rata dividend to the holders of record as of November 17, 2008 (the "Record Date") of ADNW's common and convertible preferred stock. Each holder of record of shares of ADNW common and preferred stock as of the close of business on the Record Date was entitled to receive 0.6864782 shares of the Company's common stock for each share of common stock of ADNW held at such time, and/or for each share of ADNW common stock that such holder would own, assuming the convertible preferred stock owned on the Record Date was converted in full. Prior to the spin-off, ADNW owned approximately 77% of the Company's issued and outstanding common stock. Subsequent to and as a result of the spin-off, the Company is no longer a subsidiary of ADNW.

As a result of the Company's ownership of certain ADNW securities, the Company received approximately 13,965,295 shares of its own common stock in connection with the spin-off dividend distribution. On December 31, 2008, the Company retired 13,730,413 of the shares. The remaining 234,882 shares were used by the Company for rounding of fractional shares issued in respect of the spin-off dividend, to make adjustments for the benefit of the holders of ADNW's Series B Convertible Preferred Stock which received fewer shares in connection with the spin-off than the number to which they were entitled as a result of a calculation error relating to the Series B conversion rate, and for other minor adjustments. The value of these shares of approximately $29,000 was recorded as a distribution.

On July 6, 2009, the Company issued 36,537 shares of common stock to certain directors, which were valued at approximately $4,000, and on October 7, 2009, the Company issued 125,265 shares of common stock to certain directors, which were valued at approximately $13,000, each under the Company's 2007 Long-Term Incentive Plan.

On September 30, 2009, the Company issued 149,125 shares of common stock to certain directors in lieu of cash compensation fees, which were valued at approximately $15,000.

On December 31, 2009, the Company issued 700,000 warrants exercisable at $0.08 per share in settlement of a contract. The estimated fair value of the warrants is $36,000 using the Black-Scholes valuation model and also contains a cashless exercise feature. The warrant valuation was computed using a 2.65% risk-free interest rate, a 146.7% volatility and a four-year life. The value of the warrants is included in general and administrative expenses in the consolidated statement of operations and comprehensive loss.

On January 4, 2010, the Company issued 152,679 shares of common stock to certain directors in lieu of cash compensation fees, which were valued at approximately $11,000.

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AFTERSOFT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
March 31, 2010
(Unaudited)

On January 6, 2010, the Company issued 116,765 shares of common stock to certain directors, which were valued at approximately $8,000 under the Company's 2007 Long-Term Incentive Plan.

NOTE 8. SUBSEQUENT EVENTS

On April 7, 2010, the Company issued 186,406 shares of common stock to certain directors in lieu of cash compensation fees, which were valued at approximately $15,000.

On April 6, 2010, the Company issued 122,265 shares of common stock to certain directors, which were valued at approximately $9,000 under the Company's 2007 Long-Term Incentive Plan.

On April 16, 2010, the Company settled a litigation with Mr. Blumenthal for $1,250,000. On April 19, 2010, the Company paid Mr. Blumenthal $350,000 and the balance is payable through November 2012 in equal monthly payments of $31,750, which includes interest at 7%. See note 6.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Some of the statements contained in this Quarterly Report on Form 10-Q, which are not purely historical, are forward-looking statements, including, but not limited to, statements regarding the Company's objectives, expectations, hopes, beliefs, intentions or strategies regarding the future. In some cases, you can identify forward-looking statements by the use of the words "may," "will," "should," "expects," "plans," "intends," "anticipates," "t "estimates," "predicts," "potential," or "continue" or the negative of those terms or other comparable terminology. Althougl we believe that the expectations reflected in the forward-looking statements are reasonable, our actual results could differ materially from those disclosed in these statements due to various risk factors and uncertainties affecting our business. We caution you not to place undue reliance on these forward-looking statements. We do not assume responsibility for the accuracy and completeness of the forward-looking statements and we do not intend to update any of the forward-looking statements after the date of this report to conform them to actual results. You should read the following discussion in conjunction with our financial statements and related notes included elsewhere in this report. For a more complete understanding of our industry, the drivers of our business and our current period results, you should read the following Management's Discussion and Analysis of Financial Condition and Results of Operation in conjunction with our Annual Report on Form 10-K for the year ended June 30, 2009 and our other filings with the SEC.

Overview

Aftersoft Group Inc. is a technology holding company that has two wholly owned subsidiaries based in the U.S. (ASNA and MAM U.S.) and one in the U.K. (MAM), which operate independently from one another. We have and continue to market and develop business management software solutions that manage both the business and supply chain for small- and medium-sized firms in the automotive aftermarket. The automotive aftermarket includes those businesses that supply servicing, parts, oil, tires, and performance extras to the retail market.

We believe that the largest single issue facing the automotive aftermarket at this time is the down turn of the global economy, especially the economics in which we operate. The constraint of credit within the US and U.K. markets is forcing automobile owners to retain their existing automobiles far longer than they may have previously planned. This phenomenon is forcing owners to seek out more economic ways of maintaining their vehicles, and we believe this presents an opportunity to the Company. The need for consumers to maintain their vehicles longer requires service suppliers to offer a wide range of services at highly competitive prices. We believe that this can be achieved only by those businesses that are able to efficiently manage their businesses and find methods to reduce costs without affecting service levels, which may best be done through investments in 'up to date' management information systems, specifically those designed for the automotive market. However, we have recently noticed that some businesses wishing to invest in new management systems are also finding their access to credit reduced. This may have a detrimental effect on our revenues if customers are unable to fund purchases. We still believe that the aftermarket landscape will continue to change over the next 18 months, with the convergence of the aftermarket and tire markets, but this rate of change maybe slower than first expected.

Our revenue and income is derived primarily from the sale of software, services and support. In the U.K., we also earn a percentage of our revenue and income from the sale of hardware systems to clients. In the three months ended March 31, 2010, we generated revenues of $5,550,000 and had a net loss of $719,000. Of these revenues, 72.0% came from the UK market. In the nine months ended March 31, 2010, we generated revenues of $18,508,000 with a net loss of $876,000. Of these revenues, 74.0% come from the U.K. market.

Our headquarters was formerly in Chester, U.K., and was moved to Barnsley U.K. effective February 1, 2010. We maintain additional offices for our US operating subsidiary in Dana Point, California, Allentown, Pennsylvania and, for our U.K. operating subsidiary, in Barnsley, Northampton and Wareham in the U.K.

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The software that we sell is mainly a Microsoft Windows TM -based technology, although we do still have an older 'Green Screen' terminal-based product. The four main products that we sell in the US each relate to a specific component of the automotive aftermarket supply chain. First is "warehouse distribution." Into this market we sell our Direct Step product, which enables large warehouses with millions of parts to locate, manage, pack and deliver the parts with ease and efficiency. Second, these parts are distributed to the next business in the chain, which is the "jobber." Into this market segment we sell our Autopart product, which manages a jobber's whole business (i.e., financial, stock control and order management) but more importantly enables the jobber to quickly identify the parts that his client needs, either via the internet or telephone, so that the correct product for the vehicle on the ramp can be supplied. The third, and next segment of the automotive aftermarket supply chain is the "installer," which repairs and maintains automobiles. The installer needs systems that enable him to efficiently and simply manage his businesses, whether as a single entity or national multi-site franchise. Into this segment we sell VAST. The fourth segment is the "Open Webs." This technology allows these three separate business solutions to connect to each other to allow, among other processes, ordering, invoicing and stock checking to take place in real-time both up and down the supply chain. The U.K. market differs from that of the US in that it does not have the same number of large warehouse distribution centers, so we do not sell the Direct Step product in the U.K. We continue to sell the Autopart product to the jobber market, but sell Autowork and Autocat+ to the installer market.

To date, our management has identified four areas that it believes we need to focus on.

The first area is the release of one of our U.K. products developed by MAM, our U.K. subsidiary, under a Software as a Service (SaaS) model. This is where software solutions are made available to end-users via the Internet and does not require them to purchase the software directly but 'rent' it over a fixed period of time. Our management believes that this will be a rapidly growing market for the U.K. as businesses continue to look for ways of reducing capital expenditures while maintaining levels of service. Once this has been successfully deployed in the U.K., we will look to use a similar model in the US.

The second area of focus is the sales and marketing strategy within the U.S. market. To date, although increased resources have been made available for sales and marketing, they have not brought the levels of return that management had expected. Our management has reviewed the U.S. business' sales processes and marketing efforts and made what it believes are significant improvements that will be successful over the last quarter of fiscal 2010.

The third area of focus relates to the continued sales and marketing initiatives tied to the Autopart and Autocat products within the U.S. market. A senior member of the U.K. management team has been appointed to join the U.S. business to head the efforts relating to this product along with a complementary DirectStep product. To date this move has proved successful, as we have increased levels of service and knowledge of our U.S. staff members, and management believes that this will lead to significant revenue increases within the next six months. While management believes that this is the correct route to follow, it is aware that this effort and the move of personnel may affect the U.K. business following the transfer of a key member of former U.K. management.

The fourth area is within the U.K. market and we are continually working to sustain the previous year's levels of growth in the U.K. business by focusing on additional vertical markets, which share common issues to that of the automotive market. We have developed a reputation of high levels of service and knowledge within the automotive market; and are now working on replicating this reputation in these additional verticals markets. Management intends to carefully monitor this expansion as a result of the current state of the global economy.

Recent Events

Effective January 31, 2010, Ian Warwick, CEO and director, and Simon Chadwick, COO and director, resigned from those positions with our Company. Pursuant to the terms of the Separation Agreements we entered into on January 20, 2010 with Messrs. Warwick and Chadwick, we agreed to pay to them an aggregate of $525,000 in termination payments, payable over six months, and additional payments of an aggregate of $125,000 if certain events occur. In connection with their resignations, we closed our Chester UK offices, and moved our principal executive offices to that of our U.K.-based subsidiary, MAM Software, Ltd., located at Maple Park, Maple Court, Tankersley, Barnsley, UK S75 3DP.

Effective February 1, 2010, Michael Jamieson was appointed to serve as our Interim CEO and as a director. Mr. Jamieson was also elected to serve as a director on our Board of Directors at our Annual Meeting of Stockholders, which was held on April 21, 2010.

On April 16, 2010, the Company settled a litigation with Mr. Blumenthal for $1,250,000. On April 19, 2010, the Company paid Mr. Blumenthal $350,000. The balance of the settlement amount is payable through November 2012 in equal monthly payments of $31,750, which includes interest at 7%. In the event the Company defaults in payment, Mr. Blumenthal may elect to reinstitute the original litigation. See note 6 to the financial statements.

Critical Accounting Policies

There were no changes to those policies disclosed in the Annual Report on Form 10-K for the fiscal year ended June 30, 2009 except as discussed below.

Effective July 1, 2009, we adopted the accounting standard that provides guidance for determining whether an equity-linked financial instrument, or embedded feature, is indexed to an entity's own stock. The standard applies to any freestanding financial instruments or embedded features that have the characteristics of a derivative, and to any freestanding financial instruments that are potentially settled in an entity's own common stock. As a result of the adoption, 5,083,333 of our issued and outstanding common stock purchase warrants previously treated as equity pursuant to the derivative treatment exemption were no longer afforded equity treatment. These warrants have an average exercise price of $0.21 and expiration dates of December 31, 2013. In addition, amounts related to the embedded conversion feature of convertible notes issued previously treated as equity pursuant to the derivative treatment exemption were also no longer afforded equity treatment. As such, effective July 1, 2009, we reclassified the fair value of these common stock purchase warrants and recorded the fair value of the embedded conversion features, which both have exercise price reset features, from equity to liability status as if these warrants and embedded conversion features were treated as a derivative liability since the earliest date of issue in December 2007.

Impact of Currency Exchange Rate

Our net revenue derived from sales in currencies other than the U.S. dollar was 73% and 75% for the three and nine month periods ended March 31, 2010, respectively, as compared to 75% and 76% for the corresponding periods in 2009. As the US dollar strengthens in relation to the Great Britain Pound ("GBP"), as it has recently done, our revenue and income, which is reported in US dollars, is negatively impacted. Changes in the currency values occur regularly and in some instances may have a significant effect on our results of operations.

Income and expenses of our MAM subsidiary are translated at the average exchange rate for the period. During the three and nine month periods ended March 31, 2010, the exchange rate for MAM's operating results was US$1.6094 per GBP1, compared with US$1.6384 per GBP1 for the three and nine periods ended March 31, 2009.

Assets and liabilities of our MAM subsidiary are translated into US dollars at the quarter-end exchange rates. The exchange rate used for translating our MAM subsidiary was US$1.5072 per GBP1 at March 31, 2010 and US$1.4214 per GBP1 at June 30, 2009.

Currency translation (loss) and gain adjustments are accumulated as a separate component of stockholders' equity, which totaled ($437,000) and ($458,000) for the three months ended March 31, 2010 and 2009, respectively, and ($545,000) and ($4,101,000) for the nine months ended March 31, 2010 and 2009, respectively.

As of March 31, 2010, we had a backlog of unfilled orders of business management systems of $1,837,000 compared to a backlog of $3,900,000 at March 31, 2009. We expect to recognize approximately 65% of such backlog during the next six months.

Results of Operations

Our results of operations for the three months and nine months ended March 31, 2010 compared with the three months and nine months ended March 31, 2009 were as follows:

Revenues. Revenues were $5,550,000 and $18,508,000 for the three and nine months ended March 31, 2010, respectively, an increase of 10.4% and 16.6%, respectively, compared with revenues of $5,027,000 and $15,877,000 for the three and nine months ended March 31, 2009, respectively. U.S. operations increased revenue by $330,000 and the U.K. operation increased revenue by $2,288,000 for the nine month periods. Our U.S. operation experienced higher revenues for the three and nine month periods ended March 31, 2010 than it did during the 2009 periods due to increased maintenance revenue and increased software revenue. U.K. revenues were positively impacted by increased systems sales to a large customer. The strength of the U.S. dollar vs. the British Pound had a negative effect on reported revenue for our U.K. operations compared to the prior periods.

Cost of Revenues. Total cost of revenues for the three months and nine months ended March 31, 2010, were $2,492,000 and $7,926,000, respectively, compared with $2,125,000 and $7,115,000 for the same periods of March 31, 2009, respectively. The increase in cost of sales was 17.3% and 11.4%, respectively, for the three month and nine month periods. This increase was less than the increase in revenue because of higher margin system sales during the three and nine month periods ended March 31, 2010.

Operating Expenses. The following tables set forth, for the periods indicated, our operating expenses and the variance thereof:

(In thousands)	For the Three Months Ended March 31, 2010	2009	Variance $	Variance %
Research and development	$ 754,000	$ 721,000	$ 33,000	4.6%
Sales and marketing	493,000	550,000	(57,000)	-10.4%
General and administrative	1,746 ,000	1,134,000	612,000	54.0%
Depreciation and amortization	276,000	253,000	23,000	9.1%
Total Operating Expenses	$ 3,269,000	$ 2,658,000	$ 611,000	23.0%

(In thousands)	For the Nine Months Ended March 31, 2010	2009	Variance $	Variance %
Research and development	$ 2,361,000	$ 2,215,000	$ 146,000	6.6%
Sales and marketing	1,757,000	1,710,000	47,000	2.7%
General and administrative	4,973,000	4,117,000	856,000	20.8%
Depreciation and amortization	847,000	781,000	66,000	8.5%
Total Operating Expenses	$ 9,938,000	$ 8,823,000	$ 1,115,000	12.6%

Operating expenses increased by $611,000, or 23.0% for the three months ended March 31, 2010 compared with the three months ended March 31, 2009, and increased by $1,115,000 or 12.6% for the nine months ended March 31, 2010, compared with the nine months ended March 31, 2009. This is due to the following:

Research and Development Expenses. Research and Development expenses increased by $33,000 for the three month period ended March 31, 2010 and increased by $146,000 for the nine month period ended March 31, 2010 compared to the same periods in the prior fiscal year, or increased by 4.6% and 6.6%, respectively. The increase for the three and nine month periods ended March 31, 2010 is primarily a result of an increase in the number of personnel working on development projects during the quarter ended March 31, 2010.

Sales and Marketing Expenses. Sales and Marketing expenses decreased by $57,000 or 10.4% during the three months ended March 31, 2010 as compared with the same period in 2009, and increased by $47,000 or 2.7% for the nine months ended March 31, 2010 compared with the nine months ended March 31, 2009. The decrease for the three month period was the result of reductions in advertising, travel and entertainment expenses. The increase for the nine months ended March 31, 2010 was the result of increased incentive compensation of $85,000 in the UK business, which was partially offset by reductions in expenses for the US operations.

General and Administrative Expenses. General and Administrative expenses increased by $612,000 or 54.0% for the three months ended March 31, 2010 as compared to the same period in 2009, and increased $856,000 or 20.8% for the nine months ended March 31, 2010 as compared with the same period in 2009. The increase for the three month period was the result of increased legal fees of $271,000 for the defense of the Blumenthal litigation, $300,000 for the settlement of that litigation and an increase in marketing consulting expenses of $73,000 .. The increase for the nine month period was the result of an increase of $154,000 in legal fees, $533,000 for the settlement of litigation and $650,000 in termination expenses. These increased expenses were partially offset by reduced expenditures in most other areas of administrative expenses.

Depreciation and Amortization Expenses. Depreciation and amortization expenses increased $23,000, or 9.1%, and increased $66,000, or 8.5%, for the three and nine month periods ended March 31, 2010, respectively, as compared to the same periods in 2009, which is primarily due to increased capital expenditures at our U.K. businesses.

Interest Expense. Interest expense decreased by $99,000 or 24.0% to $314,000 for the three months ended March 31, 2010, as compared to the three months ended March 31, 2009, and decreased $169,000 or 13.9% to $1,044,000 for the nine months ended March 31, 2010 as compared to the nine months ended March 31, 2009. The decrease in interest expense is related to a reduction in our total interest bearing liabilities and a reduction in amortization of debt discount and debt issuance costs, which are included in interest expense. For the three months ended March 31, 2010 we paid or incurred $176,000 in interest expense to ComVest. For the nine months ended March 31, 2010, we paid or incurred $514,000 in interest expense.

Other Income. (Expense) During the three and nine month periods ended March 31, 2010, the Company had a loss from the change in fair value of derivative liabilities of ($62,000) and $253,000, respectively. Other income includes $50,000 from the net settlement of an outstanding liability for the nine month period. The three and nine month periods ended March 31, 2010 did not have any write down of available-for-sale securities. The nine month periods ended March 31, 2009 includes a write down of $3,957,000 available-for-sale securities because of an other-than-temporary decline in the market value of the securities.

Income Taxes. Income taxes decreased by $20,000, or 13.2%, to $132,000 for the three month period ended March 31, 2010, and increased by $313,000, or 67.3%, to $778,000 for the nine month period ended March 31, 2010 as compared to the same periods in 2009, due to a increase in earnings by our U.K. subsidiaries for the respective periods.

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Net Loss. As a result of the above, we recorded a net loss of $719,000 for the three month period ended March 31, 2010, compared with a net loss of $315,000 for the three month period ended March 31, 2009, and realized a net loss of $876,000 for the nine months ended March 31, 2010, compared with a net loss of $5,664,000 for the nine months ended March 31, 2009.

Liquidity and Capital Resources

To date, most of our profits have been generated in Europe, but with the introduction of new products and efforts to streamline U.S. operations, we expect to see an increase in overall revenues with a contribution from U.S. operations in fiscal 2010.

At March 31, 2010, we had cash and cash equivalents of $1,457,000, a decrease of $206,000 from June 30, 2009. During the period ended March 31, 2010, we had $138,000 of capital expenditures and made payments of $719,000 on debt. The payments on the ComVest loan of $208,000 per month commenced in February 2010. Our total debt payments were $499,000 and $730,000 for the three and nine months ending March 31, 2010, respectively. We expect to make our upcoming monthly payments on this debt and the other outstanding obligations from operating cash flow. However, we do not expect to be able to make the $3,125,000 balloon payment due in November 2010 on the Term Loan or to pay off the $1,000,000 Revolver due at the same time from internally generated cash flow. We are currently seeking debt and/or equity financing and other activities to raise the necessary capital. There can be no assurances that such funding will be available on acceptable terms, in a timely fashion or even available at all.

We expect to see continued growth from both the US and UK operations, with strong growth in revenues and operating income from the US operation. We have identified a number of opportunities to widen our client base within the automotive industry and are actively pursuing those at this time. We also expect to see increases in revenue over the next quarter, specifically due to additional products that have been developed by the US operation which are currently being released to customers, and the reintroduction of our Autopart line of products in the US market.

We intend to continue to work at maximizing customer retention by supplying and developing products that streamline and simplify customer operations, thereby increasing their profit margin. By supporting our customers' recurring revenues, we expect to continue to build our own revenue stream. We believe that we can continue to grow our customer base through additional sales personnel, targeted media and marketing campaigns and products that completely fit clients' requirements. We also intend to service existing clients to higher levels and increasingly partner with them so that together we'll both achieve our goals.

Revenues in the UK are continuing to generate positive cash flow and more than offset the loss in the US operations, corporate expenses before one-time charges for litigation and settlement expenses and interest payments aggregating approximately $2,207,000. Excluding the one-time cash requirements, the results would have been in a positive cash flow for the quarter Our current plans still require us to hire additional sales and marketing staff, to expand within the U.S. market, to target new vertical markets effectively in the U.K. and to support expanded operations overall.

We believe our plan will strengthen our relationships with our existing customers and provide new income streams by targeting new vertical markets for our AutoPart product.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

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ITEM 4T. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective as of March 31, 2010.

(b) Changes in internal control over financial reporting

There were no changes in the Company's internal control over financial reporting in the Company's third fiscal quarter of the fiscal year ending June 30, 2010 covered by this Quarterly Report on Form 10-Q, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, the Company is subject to various legal claims and proceedings arising in the ordinary course of business. The ultimate disposition of these proceedings could have a materially adverse effect on the consolidated financial position or results of operations of the Company.

(1) On August 1, 2007 the Company and Mr. McKenna entered into an agreement resolving all outstanding actions by Mr. McKenna against the Company and its subsidiaries related to the initial action against CarParts Technologies, Inc., which is now known as ASNA. The agreement provided that the Company would pay Mr. McKenna $2,000,000 in cash, $825,000 on a promissory note with an interest rate of 8% amortized in equal payments over a 24-month period (see Note 6) and in addition would issue Mr. McKenna 1,718,750 shares of Common Stock of the Company, which represented an aggregate number of shares of common stock of the Company that the parties determined fairly represented $825,000 (assuming a price of $0.48 per share of common stock, the closing price of the Company's common stock on the date of settlement). Mr. McKenna was also entitled to warrants to purchase an equivalent number of shares of common stock at the same price, which was valued at $412,000 (using the Black-Scholes valuation model) and recorded as an additional litigation cost for the year ended June 30, 2007. Upon entering this agreement all parties agreed to withdraw all existing litigation and claims. The Company recorded the settlement with McKenna as of June 30, 2007. The shares were issued in fiscal 2008 (see Note 6). This settlement was amended during fiscal 2008 (see Note 6).

(2) Additionally, the Company entered into a settlement agreement with Mr. Arthur Blumenthal, a former shareholder of Anderson BDG, Inc. Mr. Blumenthal's lawsuit against the Company's parent ADNW emanated from an agreement Mr. Blumenthal had with a subsidiary of the Company, ASNA (f/k/a CarParts Technologies, Inc.) for the purchase of Anderson BDG, that had not been settled although it was past due. The Company assumed the liability as part of a plan of spinning off certain businesses into the Company and renegotiated the agreement with Mr. Blumenthal, the terms of which required the Company to make a payment of $50,000 cash and the issuance to Mr. Blumenthal and registration of 300,000 shares of the Company's common stock, which were issued in fiscal 2007 and valued at $0.48 per share, (the closing price of the Company's common stock on the date of settlement) or $144,000. The Company subsequently completely settled the lawsuit with Mr. Blumenthal and repaid his notes in fiscal 2008.

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On February 17, 2010, Mr. Blumenthal commenced a civil action against the Company, certain subsidiaries, and current and former officers and directors of the Company. On April 16, 2010, the Company settled the litigation with Mr. Blumenthal for $1,250,000. On April 19, 2010, the Company paid Mr. Blumenthal $350,000. The balance of the settlement amount is payable through November 2012 in equal monthly payments of $31,750, which includes interest at 7%. In the event the Company defaults in payment, Mr. Blumenthal may elect to reinstitute the original litigation. See Note 6 to the financial statements.

ITEM 1A. RISK FACTORS

Not applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

On January 4, 2010, the Company issued 152,679 shares of common stock to certain directors in lieu of cash compensation fees, which were valued at approximately $11,000.

On January 6, 2010, the Company issued 116,765 shares of common stock to certain directors, which were valued at the approximately $8,000 under the Company's 2007 Long-Term Incentive Plan.

On October 7, 2009, the Company issued 125,265 shares of common stock to certain directors, which were valued at the $12,526.

The above transactions were not registered under the Securities Act in reliance on an exemption from registration set forth in Section 4(2) thereof and Rule 506 of Regulation D promulgated thereunder as a transaction by the Company not involving any public offering and the purchaser met the "accredited investor" criteria required by he rules and regulations promulgated under the Securities Act.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. (REMOVED AND RESERVED).

ITEM 5. OTHER INFORMATION.

There have been no material changes to the procedures by which security holders may recommend nominees to the Company's Board of Directors.

ITEM 6. EXHIBITS

Exhibit Number	Description
10.1	Letter Agreement between Aftersoft Group, Inc. and Commonwealth Associates LP, with exhibits.(incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed January 6, 2010).
10.2	Separation Agreement dated January 20, 2010 between Aftersoft Group, Inc. and Ian Warwick (incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed January 22, 2010).
10.3	Separation Agreement dated January 20, 2010 between Aftersoft Group, Inc. and Simon Chadwick (incorporated herein by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed January 22, 2010).
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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, thereunto duly authorized.

	Aftersoft Group, Inc.	
Date April 26, 2010	By:	/s/ Michael G. Jamieson Michael G. Jamieson Interim Chief Executive Officer (Principal Executive Officer)
Date April 26, 2010	By:	/s/ Charles F. Trapp Charles F. Trapp Chief Financial Officer (Principal Financial Officer)

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