



## **Financial Statements**

**September 30, 2011**

## Accountants' Compilation Report

To the Board of Directors  
Democrasoft, Inc.

We have compiled the accompanying balance sheet of Democrasoft, Inc. (the Company) as of September 30, 2011, and the related statements of operations and comprehensive income, stockholders' equity, and cash flows for the period of nine months then ended. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management with presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Management has elected to omit substantially all disclosures required by accounting principles generally accepted in the United States of America which will be included by management in the 2011 Annual Financial Statements. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Company's financial position, results of operations, and cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters.

*DZH Phillips LLP*

San Francisco, California  
January 4, 2012

**DEMOCRASOFT, INC.**

**Balance Sheet**

**September 30, 2011**

**Assets**

**Current assets**

Cash and cash equivalents	\$ 477,698
Accounts receivable	1,002
Investments in Treasury notes	1,299,909
Prepaid expenses and advances	73,461
	<u>1,852,070</u>

**Property and equipment, net** 24,203

**Other assets**

Deposits	<u>8,970</u>
	<u>\$ 1,885,243</u>

**Liabilities and Stockholders' Equity**

**Current liabilities**

Accrued expenses and accounts payable	\$ 111,157
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**Stockholders' equity**

Convertible preferred stock, \$.00001 par value; 20,000,000 shares authorized; none issued and outstanding	-
Common stock, \$.00001 par value; 100,000,000 shares authorized; 43,090,480, issued and outstanding	432
Additional paid-in-capital	67,523,931
Accumulated deficit	(64,895,192)
Stockholders' notes receivable, including accrued interest of \$195,271	(857,057)
Accumulated other comprehensive income Unrealized gain on marketable securities	1,972
	<u>1,774,086</u>
	<u>\$ 1,885,243</u>

See accountants' compilation report.

**DEMOCRASOFT, INC.**

**Statement of Operations and Comprehensive Income**

**Nine Months Ended September 30, 2011**

Revenue	
Patent sales and settlements	\$ 981,250
Software development and research fees	200,000
	<u>1,181,250</u>
Costs and expenses:	
Operating	1,484,478
General and administrative	1,112,355
Research and development	614,333
Marketing	275,315
Costs associated with licensing revenue	38,000
	<u>3,524,481</u>
Loss from operations	(2,343,231)
Other income (expense):	
Interest income	17,837
Gain on sale of securities	9,199
Other taxes	(2,401)
	<u>24,635</u>
Loss before income taxes	(2,318,596)
Income taxes	-
Net loss	<u>(2,318,596)</u>
Unrealized loss	<u>(6,880)</u>
Total comprehensive loss	<u>\$ (2,325,476)</u>

See accountants' compilation report.

**DEMOCRASOFT, INC.**

**Statement of Stockholders' Equity**

**Nine Months Ended September 30, 2011**

	Common Stock	Amount	Additional Paid-In Capital	Deficit	Stockholders' Notes	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2010	42,500,000	\$ 426	\$ 67,398,137	\$ (62,576,596)	\$ (839,308)	\$ 8,852	\$ 3,991,511
Net loss	-	-	-	(2,318,596)	-	-	(2,318,596)
Unrealized loss on securities	-	-	-	-	-	(6,880)	(6,880)
Sale of stock, \$.25 per share	100,000	1	24,999	-	-	-	25,000
Sale of stock, \$.027 per share	400,000	4	10,796	-	-	-	10,800
Share-based compensation	90,000	1	89,999	-	-	-	90,000
Interest earned on notes receivable	-	-	-	-	(17,749)	-	(17,749)
Balance, September 30, 2011	<u>43,090,000</u>	<u>\$ 432</u>	<u>\$ 67,523,931</u>	<u>\$ (64,895,192)</u>	<u>\$ (857,057)</u>	<u>\$ 1,972</u>	<u>\$ 1,774,086</u>

See accountants' compilation report.

**DEMOCRASOFT, INC.**

**Statement of Cash Flows**

**Nine Months Ended September 30, 2011**

<b>Cash flows provided by operating activities:</b>	
Net loss	\$ (2,318,596)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	13,229
Realized gain on sale of securities	(4,985)
(Increase) decrease in assets:	
Accounts receivable	(1,002)
Interest receivable on stockholder notes	(17,749)
Prepaid expenses	(54,351)
Deposits	(230)
Decrease in liabilities:	
Accounts payable and accrued expenses	73,383
Net cash used in operating activities	<u>(2,310,301)</u>
<b>Cash flows provided by investing activities:</b>	
Proceeds from sale of available-for-sale securities, net	2,296,132
<b>Cash flows provided by financing activities:</b>	
Proceeds from sale of common stock	<u>95,800</u>
Net decrease in cash and cash equivalents	81,631
Cash and cash equivalents, beginning of year	<u>396,067</u>
Cash and cash equivalents, end of year	<u><u>\$ 477,698</u></u>
<b>Supplemental disclosures:</b>	
Cash paid for income taxes	\$ -
Cash paid for interest	\$ -

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