



Financial Statements

June 30, 2010

Accountants' Compilation Report

To the Board of Directors
Democrasoft, Inc.

We have compiled the accompanying balance sheet of Democrasoft, Inc. (the Company) as of June 30, 2010, and the related statements of operations and comprehensive income, stockholders' equity, and cash flows for the period of six months then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them. However, we did become aware of the departures from generally accepted accounting principles described in the following paragraphs.

Generally accepted accounting principles require that income taxes be accrued. Management has informed us that the Company has not accrued income taxes in the accompanying financial statements, and the effects of this departure from generally accepted accounting principles have not been determined. In addition, generally accepted accounting principles require the Company to record stock option compensation expense. The Company has not recorded stock option compensation expense in the accompanying financial statements, and the effects of this departure from generally accepted accounting principles have not been determined.

Management has elected to omit substantially all disclosures required by accounting principles generally accepted in the United States of America which will be reflected by Management in the 2010 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
August 12, 2010

DEMOCRASOFT, INC.

Balance Sheet

June 30, 2010

Assets

Current assets

Cash and cash equivalents	\$ 263,335
Investments in treasury notes	5,594,328
Prepaid expenses and advances	<u>16,646</u>
	5,874,309

Property and equipment, net

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Other assets

Other assets	<u>8,740</u>
	<u>\$ 5,883,049</u>

Liabilities and Stockholders' Equity

Current liabilities

Accrued expenses and accounts payable	\$ 14,806
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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; 42,500,480, issued and outstanding	426
Additional paid-in-capital	67,382,442
Accumulated deficit	(60,699,868)
Stockholders' notes receivable, including accrued interest of \$165,299	(827,089)
Accumulated other comprehensive income	
Unrealized gain on marketable securities	<u>12,332</u>
	<u>5,868,243</u>
	<u>\$ 5,883,049</u>

See accountants' compilation report.

DEMOCRASOFT, INC.

Statement of Operations and Comprehensive Income

Six Months Ended June 30, 2010

Revenue	\$	1,483
Costs and expenses:		
General and administrative		631,355
Research and development		915,829
		<u>1,547,184</u>
Loss from operations		(1,545,701)
Other income (expense):		
Interest income		11,461
Interest expense		(17,252)
Gain on sale of securities		8,977
		<u>3,186</u>
Loss before income taxes		(1,542,515)
Income taxes		<u>7,600</u>
Net loss		(1,550,115)
Unrealized gain		<u>3,272</u>
Total comprehensive loss	\$	<u><u>(1,546,843)</u></u>

See accountants' compilation report.

DEMOCRASOFT, INC.

Statement of Stockholders' Equity

Six Months Ended June 30, 2010

	Common Stock	Amount	Additional Paid-In Capital	Deficit	Stockholders' Notes	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2009	42,500,480	\$ 426	\$ 67,382,442	\$ (59,149,753)	\$ (820,232)	9,060	\$ 7,421,943
Net loss	-	-	-	(1,550,115)	-	-	(1,550,115)
Unrealized gain on securities	-	-	-	-	-	3,272	3,272
Payment on notes receivable	-	-	-	-	4,594	-	4,594
Interest earned on notes receivable	-	-	-	-	(11,451)	-	(11,451)
Balance, June 30, 2010	<u>42,500,480</u>	<u>\$ 426</u>	<u>\$ 67,382,442</u>	<u>\$ (60,699,868)</u>	<u>\$ (827,089)</u>	<u>12,332</u>	<u>\$ 5,868,243</u>

See accountants' compilation report.

DEMOCRASOFT, INC.

Statement of Cash Flows

Six Months Ended June 30, 2010

Cash flows provided by operating activities:

Net loss	\$	(1,550,115)
Adjustments to reconcile net income to net cash provided by operating activities:		
Unrealized gain on securities		3,272
Realized gain on sale of securities		(8,977)
(Increase) decrease in assets:		
Income tax recoverable		789,679
Interest receivable on income tax recoverable		108,534
Interest receivable on stockholder notes		(11,357)
Prepaid expenses		(13,698)
Decrease in liabilities:		
Accounts payable and accrued expenses		(108,135)
Net cash used in operating activities		<u>(790,797)</u>

Cash flows provided by investing activities:

Proceeds from sale of available-for-sale securities, net	856,946
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Cash flows provided by financing activities:

Proceeds from note receivable, related party	10,759
Proceeds from stockholders' notes receivable	4,500
Net cash provided by financing activities	<u>15,259</u>

Net increase in cash and cash equivalents 81,408

Cash and cash equivalents, beginning of year 181,927

Cash and cash equivalents, end of year \$ 263,335

Supplemental disclosures:

Cash paid for income taxes	\$	74,000
Cash paid for interest	\$	17,252

See accountants' compilation report.