



## **Financial Statements**

**March 31, 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 March 31, 2011, and the related statements of operations and comprehensive income, stockholders' equity, and cash flows for the period of three 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 are 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  
May 10, 2011

**DEMOCRASOFT, INC.**

**Balance Sheet**

**March 31, 2011**

**Assets**

**Current assets**

Cash and cash equivalents	\$ 277,842
Accounts receivable	1,250
Investments in treasury notes	3,197,791
Prepaid expenses and advances	25,461
	<u>3,502,344</u>

**Property and equipment, net** 33,463

**Other assets**

Deposits	8,970
	<u>8,970</u>
	<u>\$ 3,544,777</u>

**Liabilities and Stockholders' Equity**

**Current liabilities**

Accrued expenses and accounts payable	\$ 51,700
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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; 43,000,480, issued and outstanding	431
Additional paid-in-capital	67,433,932
Accumulated deficit	(63,101,438)
Stockholders' notes receivable, including accrued interest of \$183,437	(845,225)
Accumulated other comprehensive income Unrealized gain on marketable securities	5,377
	<u>3,493,077</u>
	<u>\$ 3,544,777</u>

See accountants' compilation report.

**DEMOCRASOFT, INC.**

**Statement of Operations and Comprehensive Income**

**Three Months Ended March 31, 2011**

Revenue	
Patent sales and settlements	\$ 731,250
Software license sales	1,250
	<u>732,500</u>
Costs and expenses:	
General and administrative	1,057,880
Research and development	210,225
	<u>1,268,105</u>
Loss from operations	(535,605)
Other income (expense):	
Interest income	5,949
Gain on sale of securities	4,985
Other taxes	(171)
	<u>10,763</u>
Loss before income taxes	(524,842)
Income taxes	<u>-</u>
Net loss	(524,842)
Unrealized loss	<u>(3,475)</u>
Total comprehensive loss	<u><u>\$ (528,317)</u></u>

See accountants' compilation report.

**DEMOCRASOFT, INC.**

**Statement of Stockholders' Equity**

**Three Months Ended March 31, 2011**

	<u>Common Stock</u>	<u>Amount</u>	<u>Additional Paid-In Capital</u>	<u>Deficit</u>	<u>Stockholders' Notes</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
Balance, December 31, 2010	42,500,480	\$ 426	\$ 67,398,137	\$ (62,576,596)	\$ (839,308)	\$ 8,852	\$ 3,991,511
Net loss	-	-	-	(524,842)	-	-	(524,842)
Unrealized loss on securities	-	-	-	-	-	(3,475)	(3,475)
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
Interest earned on notes receivable	-	-	-	-	(5,917)	-	(5,917)
Balance, March 31, 2011	<u>43,000,480</u>	<u>\$ 431</u>	<u>\$ 67,433,932</u>	<u>\$ (63,101,438)</u>	<u>\$ (845,225)</u>	<u>\$ 5,377</u>	<u>\$ 3,493,077</u>

See accountants' compilation report.

**DEMOCRASOFT, INC.**

**Statement of Cash Flows**

**Three Months Ended March 31, 2011**

**Cash flows provided by operating activities:**

Net loss	\$	(524,842)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation		3,969
Realized gain on sale of securities		(4,985)
(Increase) decrease in assets:		
Accounts receivable		(1,250)
Interest receivable on stockholder notes		(5,917)
Prepaid expenses		(6,351)
Deposits		(230)
Decrease in liabilities:		
Accounts payable and accrued expenses		(16,074)
Net cash used in operating activities		<u>(555,680)</u>

**Cash flows provided by investing activities:**

Proceeds from sale of available-for-sale securities, net		401,655
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**Cash flows provided by financing activities:**

Proceeds from sale of common stock		<u>35,800</u>
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Net increase in cash and cash equivalents		(118,225)
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Cash and cash equivalents, beginning of year		<u>396,067</u>
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Cash and cash equivalents, end of year	\$	<u><u>277,842</u></u>
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**Supplemental disclosures:**

Cash paid for income taxes	\$	-
Cash paid for interest	\$	-

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