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TECHNICAL ASSESSMENT SYSTEMS, INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 1995

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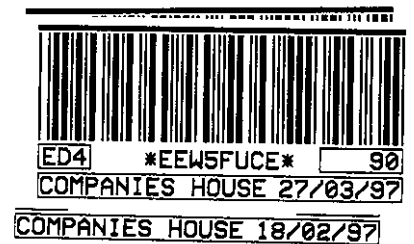


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CALLOW, MACHEN
& CRANFORD, P.C.

Certified Public Accountants
and Management Consultants

Technical Assessment Systems, Inc.
Washington, DC

We have reviewed the accompanying balance sheet of Technical Assessment Systems, Inc., an S corporation, as of December 31, 1995, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Technical Assessment Systems, Inc.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

Callow, Machen & Cranford, P.C.
CALLOW, MACHEN & CRANFORD, P.C.

March 29, 1996

TECHNICAL ASSESSMENT SYSTEMS, INC.
BALANCE SHEET
DECEMBER 31, 1995

ASSETS

CURRENT ASSETS

		1994 \$
Cash and equivalents	\$ 51,225	\$ 141,610
Accounts receivable, net of allowance	1,425,474	1,282,523
Prepaid expenses	29,346	23,638
Income tax refunds receivable	40,916	40,916
Employee advances	628	3,074
Other receivables	10,177	3,780
Due from stockholder	<u>1,200</u>	<u>—</u>
Total current assets		\$ 1,558,966 \$1,395,541

PROPERTY AND EQUIPMENT

Furniture and equipment	162,353	161,706
Computers	322,566	297,693
Office equipment	135,718	135,718
Vehicles	<u>41,443</u>	<u>1,682</u>
Total	662,080	662,210
Less: accumulated depreciation	<u>530,107</u>	<u>474,668</u>
Total property and equipment		131,973 187,542

OTHER ASSETS

Security deposits	36,444	36,969
License fee, net of amortization of \$8,333	<u>41,667</u>	
Total other assets		<u>78,111</u>

TOTAL ASSETS

\$ 1,769,050

1994
\$ 1,620,052

See accompanying notes and accountants' review report.

TECHNICAL ASSESSMENT SYSTEMS, INC.
BALANCE SHEET
DECEMBER 31, 1995

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable	\$ 14,326	1994 \$ 46,076
Accrued expenses	20,231	13,727
Payroll taxes and other withholdings payable	93,372	92,278
401(k) contributions payable	37,672	39,607
Accrued wages and salaries	62,800	—
Accrued vacation	126,867	118,721
Accrued sick leave	32,448	27,500
Deferred revenue	15,000	3,000
Current portion of deferred rent incentives	42,472	42,472
Provision for income taxes - deferred	64,300	57,700
Due to stockholder	8,000	14,628
Line of credit	<u>120,000</u>	<u>250,000</u>

Total current liabilities

\$ 637,488 751,709

LONG-TERM LIABILITIES

Provision for income taxes - deferred	239,400	239,400
Deferred rent incentives, net of current portion	<u>242,216</u>	<u>284,688</u>

Total long-term liabilities

481,616 524,088

Total liabilities

1,119,104 1,281,797

STOCKHOLDERS' EQUITY

Common stock, .10 par value, 10,000 shares authorized, 200 shares issued and outstanding	20	20
Additional paid-in capital	246,701	326
Retained earnings	<u>403,225</u>	<u>337,909</u>

Total stockholders' equity

649,946 338,255

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

\$ 1,769,050 1,620,052

See accompanying notes and accountants' review report.

TECHNICAL ASSESSMENT SYSTEMS, INC.
STATEMENT OF INCOME
FOR THE YEAR ENDED
DECEMBER 31, 1995

	1994 \$	AMOUNT	%	% 1994
REVENUES				
Consulting services	3,981,589	\$4,905,154	96.7	97.4
Software licenses	105,700	<u>167,000</u>	<u>3.3</u>	<u>2.6</u>
Total revenues	4,087,289	<u>5,072,154</u>	<u>100.0</u>	<u>100.0</u>
DIRECT CONTRACT COSTS	1,461,215	<u>1,695,298</u>	<u>33.4</u>	<u>35.8</u>
GROSS PROFIT	2,626,074	3,376,856	66.6	64.2
INDIRECT EXPENSES	1,755,187	<u>1,900,177</u>	<u>37.5</u>	<u>42.9</u>
		1,476,679	29.1	
GENERAL AND ADMINISTRATIVE EXPENSES	1,116,588	<u>1,348,033</u>	<u>26.6</u>	<u>27.3</u>
Net income from operations	(loss) (245,701)	128,646	2.5	(6.0)
OTHER INCOME (EXPENSES)	(33,301)	<u>(56,630)</u>	<u>(1.1)</u>	<u>(.8)</u>
Net income before taxes	(279,002)	72,016	1.4	(6.8)
Provision for income tax	(26,658)	<u>6,700</u>	<u>.1</u>	<u>(.6)</u>
NET INCOME	(loss) (252,344)	<u>\$ 65,316</u>	<u>1.3</u>	<u>(6.2)</u>

See accompanying notes and accountants' review report.

TECHNICAL ASSESSMENT SYSTEMS, INC.
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED
DECEMBER 31, 1995

	<u>COMMON STOCK</u>	<u>ADDITIONAL PAID-IN CAPITAL</u>	<u>RETAINED EARNINGS</u>	<u>TOTAL</u>
Beginning stockholders' equity	\$ 20	\$ 326	\$337,909	\$338,255
Net income	-	-	65,316	65,316
Capital contributions	<u>-</u>	<u>246,375</u>	<u>-</u>	<u>246,375</u>
ENDING STOCKHOLDERS' EQUITY	<u>\$ 20</u>	<u>\$ 246,701</u>	<u>\$403,225</u>	<u>\$649,946</u>

See accompanying notes and accountants' review report.

TECHNICAL ASSESSMENT SYSTEMS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED
DECEMBER 31, 1995

INCREASE (DECREASE) IN CASH

OPERATING ACTIVITIES:

Net income		1994 \$ 65,316 (252,344)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	\$ 80,482	106,398
Amortization	8,333	—
Gain on sale of property	(4,393)	—
Changes in assets and liabilities:		
Increase in accounts receivable	(142,951)	(351,688)
Increase in other receivables	(7,151)	44,510
Increase in prepaid expenses	(5,708)	3,474
Decrease in security deposits	525	(822)
Decrease in accounts payable	(31,750)	1,116
Increase in payroll taxes and other withholdings	1,094	33,974
Decrease in pension contribution payable (Increase)	(1,935)	3,906
Increase in accrued expenses	82,398	13,894
Increase in deferred revenue (Decrease)	12,000	(12,000)
Decrease in deferred rent incentives Increase	(42,472)	189,654
Decrease in due to stockholders	(6,628)	—
Increase in deferred tax provision	6,600	(23,000)
Total adjustments		(51,556) 9,316
Net cash provided by operating activities		13,760 (243,028)

INVESTING ACTIVITIES:

License fee	(50,000)	
Proceeds from sale of property	5,000	
Capital expenditures	(25,520)*	(61,088)
Net cash used by investing activities		(70,520)

FINANCING ACTIVITIES:

Repayment of stockholder loan	(50,000)	16,628
Net payments on line of credit (Proceeds from LOC)	(130,000)	175,000
Capital contributions	246,375	—
Net cash provided by financing activities		66,375 191,628
NET INCREASE IN CASH (Decrease)		9,615 (112,488)
Beginning cash		41,610 154,098
ENDING CASH & EQUIVALENTS		\$ 51,225 41,610

See accompanying notes and accountants' review report.

TECHNICAL ASSESSMENT SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1995

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Technical Assessment Systems, Inc. was incorporated in the state of Maryland on August 6, 1984. The Company's principal business activity is consulting in the areas of toxicology, chemistry, risk assessment, product development and regulatory agency compliance. The Company extends credit to its customers, substantially all of whom are large domestic and international companies or governmental agencies.

For purposes of the statement of cash flows, cash equivalents include all highly liquid debt instruments with original maturities of three months or less. The Company's policy is to invest cash in excess of operating requirements in income producing investments such as money market accounts and overnight repurchase agreements, both of which have maturities of three months or less.

The preparation of financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

The books of the Company are maintained on the accrual basis of accounting. Using this method, revenues and the related assets are recognized when earned and expenses and the related obligations are recognized when incurred.

Property and equipment are stated at cost. Depreciation is computed using the declining balance method of depreciation over the recommended periods for the individual assets.

For financial reporting purposes, the corporation utilizes the reserve method of accounting for doubtful accounts. At December 31, 1995, management estimated that \$90,000 of accounts receivable would not be collectable.

Foreign assets include cash and equivalents which are valued at December 31, 1995 using the actual exchange rate at December 31, 1995. Various prepaid and accrued expenses are restated to the December 31, 1995 exchange rate. Foreign fixed assets are recorded using actual transaction rates and are not restated to the December 31, 1995 exchange rate as required by generally accepted accounting principles. The effect of this departure does not have a material effect on the financial statements. Foreign currency transactions are recorded using actual exchange rates for traceable cash transactions and average exchange rates for other transactions. A foreign exchange loss of \$1,018, is recognized for the year ending December 31, 1995.

TECHNICAL ASSESSMENT SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1995

NOTE B - LINE OF CREDIT

On June 30, 1995 the Company was approved for a \$300,000 revolving line of credit with NationsBank, which renews May 31, 1996. Interest is payable monthly at a rate of one percent above the bank's prime rate. The line of credit is secured by all accounts receivable, notes receivable, contract rights and other rights of the Company for payment of money, and is personally guaranteed by certain officers of the Company. The agreement for the line of credit also includes covenants relating to various financial statement amounts and ratios.

At December 31, 1995 there was a balance of \$120,000 outstanding on this line of credit.

NOTE C - DEFERRED TAXES

The Company elected S corporation status effective January 1, 1993. Therefore, the Company has a potential liability for federal income tax on "built-in-gains" based on the excess of the market values of assets over their basis for income tax purposes as of January 1, 1993.

Additionally since the Company uses the cash method of accounting for tax reporting purposes and the accrual method of accounting for financial statement purposes, and the District of Columbia does not recognize S-corporation status, deferred state income taxes have been reported in these financial statements. Deferred state tax represents the estimated state income tax effects of the timing differences in reporting income and expenses for income tax purposes and financial statement purposes.

The earnings and losses after January 1, 1993 will be included in the personal income tax returns of the stockholders and taxed depending on their personal tax positions. Prior to the change to S-corporation status, the financial statements included federal income taxes currently payable and a deferred provision for income taxes related to timing differences due to the use of the cash basis method of accounting for tax reporting purposes.

TECHNICAL ASSESSMENT SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1995

NOTE D - INCOME TAX EXPENSE

The components of income tax expense for the year ended December 31, 1995 are as follows:

Current - state	\$ 100
Deferred - state	<u>6,600</u>
Total	<u>\$ 6,700</u>

The Tax Reform Act of 1986 expanded the corporate alternative minimum tax ("AMT"). Under this Act, the Company's tax liability is the greater of its regular tax or the AMT. To the extent that the Company's AMT liability exceeds its otherwise determined tax liability, a portion of the AMT credit may be applied against future tax liabilities. At December 31, 1995, the Company has AMT credits totalling \$858 and research and development credits totalling \$21,564.

The Company has a District of Columbia net operating loss carryforward of \$329,539 which expires in December, 2009.

NOTE E - OPERATING LEASES

In April 1993, the Company entered into a noncancellable lease for expanded space at 1000 Potomac Street, N.W. for ninety months commencing December 6, 1993. The lease calls for monthly rental payments for the first five years of \$36,444 with the first six months of rent abated and potential increases based on a percentage of the increase in the consumer price index and an allocation of a proportionate share of increases in certain building operating costs. In year six, base rent is increased by \$1,703 per month for the remainder of the lease.

The future minimum rentals under this lease are as follows:

YEAR END DECEMBER 31	AMOUNT
1996	\$ 437,330
1997	437,330
1998	437,330
1999	457,767
2000	457,767
Thereafter	<u>228,884</u>
Total minimum future rental payments	<u>\$ 2,456,408</u>

TECHNICAL ASSESSMENT SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1995

NOTE E - OPERATING LEASES (Continued)

Generally accepted accounting principles require lessees to recognize rent under noncancelable operating leases on a straight-line method over the period the lessee controls the use of the property. Accordingly, total future minimum rentals are being recognized as expense over the lease term, including the free rent period. As a result, the Company has a liability for deferred rent of \$284,688 at December 31, 1995.

Additionally, the lease provided for the landlord to provide an improvement allowance of \$692,388. Up to \$5 per square foot of this allowance can be used to purchase furnishings. Included in property and equipment are \$156,539 of assets for which the Company has been reimbursed by the landlord. Since these reimbursements are considered lease incentives, the incentives are recognized as rent credits over the life of the lease. Included in the liability for deferred lease incentives is \$156,539 from this allowance, less \$44,702 of rent credits that have been recognized as of December 31, 1995.

This lease provides an option to extend for two additional five-year periods.

In January 1995, the Company entered into a lease at 23 and 25 Abbey Road, Worchestershire, Great Britain for a term of three years commencing January, 1995. Annual rent of \$11,625 (7,500 pounds) is payable quarterly, in advance. Additionally, the Company pays 50 percent of the insurance, taxes, and utilities for the common area. The exchange rate at December 31, 1995 has been utilized to translate foreign currency into U.S. dollars.

The future minimum rental commitment at December 31, 1995 is as follows:

<u>YEAR END</u> <u>DECEMBER 31</u>	<u>AMOUNT</u>
1996	\$ 11,625
1997	<u>11,625</u>
Total	<u>\$ 23,250</u>

NOTE F - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Income tax of \$100 was paid and expensed during the year ended December 31, 1995. Interest of \$10,783 was paid and \$7,563 expensed during the year.

TECHNICAL ASSESSMENT SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1995

NOTE G - 401(k) PLAN

On January 1, 1988 the Company adopted a 401(k) plan for its employees, which allows them to make contributions to the plan by reducing their salaries. The Company matches 50 percent of an employee's annual contribution, up to four percent of salary. The retirement contribution expense for the year ended December 31, 1995 was \$39,266.

NOTE H - BUY/SELL AGREEMENT

Under the terms of an agreement with its president and vice-president, upon their death, the Company is required to purchase their shares of the Company's common stock then owned at an aggregate price equal to the book value of those shares. Payment for those shares may be made over a period of three years. At December 31, 1995, the face amount of life insurance policies was sufficient to fund this redemption agreement.

NOTE I - SHORT-TERM DISABILITY COMPENSATION

The Company maintains a policy whereby disabled employees are compensated while absent until such time as benefits begin under the Company sponsored disability insurance plan. This plan takes effect after all sick leave, vacation and compensatory time have been utilized by the employee. No liability has been accrued for this short-term disability compensation, as the payment of such compensation is improbable and not susceptible to reasonable estimation.

NOTE J - NOTE PAYABLE - STOCKHOLDER

In December of 1993, a stockholder of the Company loaned \$50,000 to the corporation under an unsecured note. This note was payable on demand with interest accrued at a rate of 7 percent. This note was repaid during 1995, with interest paid of \$5,963.

TECHNICAL ASSESSMENT SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1995

NOTE K - RELATED PARTY TRANSACTIONS

In addition to the note payable to a stockholder referred to in note J, \$10,000 was advanced to the Company by the stockholders in 1994. In 1995, \$2,000 of these advances were applied to the purchase of a vehicle from the Company by a stockholder. The vehicle had an original cost of \$23,968 and was fully depreciated. The stockholder purchased it for \$5,000. With the \$2,000 of advances applied and payments of \$1,800, there is a balance due to the Company at December 31, 1995 of \$1,200.

A license fee of \$50,000 was paid to the husband of one of the stockholders for software which is incorporated into the Company's products. See Note L for amortization of this intangible asset.

NOTE L - INTANGIBLE ASSET

In November, 1995, a \$50,000 license fee was paid for the use of software rights from November, 1995 through October, 1996. This fee is being amortized over the period these rights will be used. Amortization of \$8,333 is included in these financial statements.