



auto-graphics, inc.

MANAGE SHARE SEARCH

Quarterly Report

Quarter Ended September 30, 2009

Trading Symbol: AUGR.PK

AUTO-GRAPHICS, INC.
Quarterly Report
September 30, 2009

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Unaudited Consolidated Balance Sheet

ASSETS

Current assets:	
Cash and cash equivalents	\$ 1,149,481
Accounts receivable, less allowance for doubtful accounts	244,196
Deferred income taxes – current (Note 4)	72,851
Other current assets	217,368
Total current assets	1,683,896
Software, equipment, furniture and leasehold improvements, net	2,653,781
	\$ 4,337,677

LIABILITIES & STOCKHOLDERS' EQUITY

Current liabilities:	
Accounts payable	\$ 66,076
Deferred revenue	1,355,198
Accrued payroll and related liabilities	182,316
Other accrued liabilities	87,219
Total current liabilities	1,690,809
Deferred income taxes (Note 4)	76,000
Total liabilities	1,766,809
Commitments and contingencies	--
Stockholders' equity:	
Common Stock, 12,000,000 shares authorized, 4,273,210 shares issued and outstanding in 2009	3,268,139
Accumulated deficit	(632,649)
Accumulated other comprehensive loss	(64,622)
Total stockholders' equity	2,570,868
	\$ 4,337,677

See Notes to Unaudited Consolidated Financial Statements.

AUTO-GRAPHICS, INC.
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Unaudited Consolidated
Statements of Operations
For the Nine Months Ended September 30, 2009

	2009	2008
Net sales (Note 3)		
Subscriptions and maintenance	\$ 3,645,336	\$ 3,833,365
License and services	211,388	265,785
Total net sales	3,856,724	4,099,150
Costs and expenses		
Cost of sales	950,357	863,269
Research and development	374,448	442,036
Sales, marketing and customer service	1,823,301	1,916,037
General and administrative	714,027	748,778
Total costs and expenses	3,862,133	3,970,120
Income from operations	(5,409)	129,030
Other income	2,493	12,123
Income before income taxes	(2,916)	141,153
Income tax expense (Note 4)	9,000	9,000
Net income	\$ (11,916)	\$ 132,153
<u>Earnings per share (Note 5):</u>		
Basic income per share	\$.00	\$.03
Weighted average shares outstanding	4,273,210	4,282,210
Diluted income per share	.00	.03
Weighted average shares outstanding	4,765,332	4,774,332

See Notes to Unaudited Consolidated Financial Statements.

AUTO-GRAPHICS, INC.
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Unaudited Consolidated
Statements of Operations
For the Three Months Ended September 30, 2009

	2009	2008
Net sales		
Subscriptions and maintenance	\$ 1,318,719	\$ 1,296,254
License and services	95,635	30,518
Total net sales	1,414,354	1,326,772
Costs and expenses		
Cost of sales	348,716	258,479
Research and development	50,146	116,647
Sales, marketing and customer service	653,728	710,901
General and administrative	244,188	236,526
Total costs and expenses	1,296,778	1,322,553
Income from operations	117,576	4,219
Other income	345	3,431
Income before income taxes	117,921	7,650
Income tax expense (Note 4)	3,000	3,000
Net income	\$ 114,921	\$ 4,650
<u>Earnings per share (Note 5):</u>		
Basic income per share	\$.03	\$.00
Weighted average shares outstanding	4,273,210	4,282,210
Diluted income per share	.02	.00
Weighted average shares outstanding	4,765,332	4,764,110

See Notes to Unaudited Consolidated Financial Statements.

AUTO-GRAPHICS, INC.
Unaudited Consolidated Statement of Stockholders' Equity
And Comprehensive Income
For the Nine Months Ended September 30, 2009

	Common Stock		Retained Earnings/ (Accumulated Deficit)	Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount			
Balances at December 31, 2008	4,273,210	\$ 3,251,039	\$(620,733)	\$ (99,831)	\$ 2,530,475
Net income	--	--	(11,916)	--	(11,916)
Foreign currency translation adjustments	--	--	--	35,209	35,209
Comprehensive income	--	--	--	--	
Stock option shares exercised	--	--	--	--	--
Shares repurchased/ Adjustments	--	--	--	--	
Stock option expense (Note 6)	--	17,100	--	--	17,100
Balances at September 30, 2009	4,273,210	\$ 3,268,139	\$(632,649)	\$ (64,622)	\$ 2,570,868

See Notes to Unaudited Consolidated Financial Statements.

AUTO-GRAPHICS, INC.
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Unaudited Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2009
Increase (Decrease) in Cash

	2009	2008
Cash flows from operating activities:		
Net income	\$ (23,667)	\$ 132,154
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	469,563	526,083
Provision for doubtful accounts	--	--
Stock option expense (Note 6)	17,100	9,984
Changes in operating assets and liabilities:		
Accounts receivable	114,209	81,372
Other current assets	(83,074)	(113,058)
Other assets	--	--
Accounts payable	8,371	71,262
Deferred revenue	451,745	197,288
Accrued payroll and related liabilities	(29,705)	(35,921)
Other accrued liabilities	(47,390)	(35,670)
Net cash provided by operating activities	877,152	833,496
Cash flows from investing activities:		
Capital expenditures	(73,736)	(71,670)
Capitalized software development	(752,771)	(396,896)
Net cash used in investing activities	(826,507)	(468,566)
Cash flows from financing activities:		
Common stock purchased/adjustments	--	--
Net cash provided by (used in) financing activities	--	--
Net increase (decrease) in cash	50,645	364,930
Effect of foreign exchange on cash	14,075	--
Cash at beginning of period	1,084,762	780,260
Cash at end of period	\$ 1,149,481	\$ 1,145,189

See Notes to Unaudited Consolidated Financial Statements.

AUTO-GRAPHICS, INC.
Notes to Consolidated Financial Statements
September 30, 2009

1. Summary of significant accounting policies

Auto-Graphics, Inc. (the “Company”), a California corporation incorporated in 1960, including its wholly owned A-G Canada, Ltd. Subsidiary, provide software products and services used to create, manage, publish and access information content via the Internet/Web.

A-G Canada, a Canadian corporation formed in 1997, provides software products and services to customers in the library community in Canada.

Basis of presentation

The consolidated financial statements include the accounts of Auto-Graphics, Inc. and it’s wholly and majority-owned subsidiary. All material intercompany accounts and transactions have been eliminated.

Revenue recognition

The Company recognizes revenue in accordance with the American Institute of Certified Public Accountant’s Statement of Position (SOP) 97-2, “Software Revenue Recognition”, as amended by SOP 98-4 and SOP 98-9 and Emerging Issues Task Force (EITF) Issue No. 00-3, “Application of AICPA SOP 97-2 to Arrangements That Include the Right to Use Software Stored on Another Entity’s Hardware” and EITF Issue No. 00-21, “Revenue Arrangements with Multiple Deliverables.” The SOP provides that revenue may be recognized when persuasive evidence of an agreement (contract or purchase order) exists, delivery has occurred, the price is fixed or readily determinable and collectability is probable with some exceptions.

Recurring revenues for SaaS (Software as a Service) services, database subscriptions and software maintenance and support contracts are recognized as services are rendered on a quarterly pro rata basis over the contractual period commencing in the period in which access rights are provided to the customer.

License revenues are recognized when the software is shipped to the customer or system access rights are provided to the customer.

Certain revenue transactions may include multiple deliverables, which may or may not be separately priced. For deliverables which are not separately priced, the Company uses the relative fair values of the separate deliverables to allocate revenues. Each deliverable is then treated in accordance with the above revenue recognition policies depending on the nature of the deliverable.

Revenues for which payment has been received in advance are treated as deferred revenue until services are provided and the revenues have been earned.

(continued)

AUTO-GRAPHICS, INC.
Notes to Consolidated Financial Statements
September 30, 2009

1. Summary of significant accounting policies *(continued)*

Use of estimates

The preparation of the financial statements of the Company in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and sales and expenses during the reporting period. These estimates are based on confirmation available as of the date of the financial statements. Actual results may materially differ from those estimated.

Foreign currency translation

The functional and reporting currency for operations located in Canada is the Canadian dollar. Consequently, assets and liabilities must be translated into U.S. dollars using standard exchange rates and the effects of the foreign currency translation adjustments are accumulated as other comprehensive income and included as a component of stockholders' equity. All other Company transactions are denominated in U.S. dollars.

Credit risk

The Company performs ongoing credit evaluations of its customers and generally requires cash deposits in advance of providing services. The Company maintains a reserve for potential losses from uncollectible accounts in the form of an allowance for doubtful accounts and actual losses in 2008 were in line with management's expectations. The Company may be exposed to credit risk for trade receivables beyond the reserves established by the Company for this purpose. During the year, the Company had cash balances on hand at various financial institutions which exceeded FDIC and CDIC insured limits for periods of time. (See *Cash and Cash Equivalents*.)

Fair value of financial instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practical to estimate that value.

Cash and Cash Equivalents and Accounts Receivables: the carrying amounts approximate fair value because of the short-term maturity of these instruments.

Cash and cash equivalents

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

(continued)

AUTO-GRAPHICS, INC.
Notes to Consolidated Financial Statements
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1. Summary of significant accounting policies *(continued)*

Accounts receivable

Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on reviews of outstanding amounts on a regular basis. (See *Credit Risk*.)

Software

Software is recorded at historical cost. Software as of September 30, 2009, consists of the following:

Software	\$10,480,931
Less accumulated amortization	<u>8,024,601</u>
Software, net	<u>\$ 2,456,330</u>

Certain costs incurred related to the development and purchase of computer software are capitalized and amortized in accordance with Statement of Financial Accounting Standards (SFAS) No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed". The Company collects and segregates software development labor hours applied to design, development, quality assurance and product documentation associated with the software development process. All labor hours associated with the design and specification development process are expensed as incurred until a detailed design has been developed. All labor hours associated with coding, debugging, alpha testing, software bug corrections, quality assurance testing and documentation are eligible for capitalization under SFAS No. 86. Generally, the Company capitalizes approximately 70% of eligible costs based on an average actual cost per labor hour and expenses the remainder. On an annual basis, the Company evaluates its capitalized software for recoverability against the estimated future revenues over the next five years from the products or services.

In accordance with Emerging Issues Task Force Issue 00-02, "Accounting for Web Site Development Costs", certain marketing costs incurred to develop Web sites are expensed as incurred.

Amortization of software costs is based on the greater of the projected to actual revenue ratio or straight-line method and commences in the first full year of product availability and continues over the product's estimated useful life. The estimated useful life for computer software and databases is seven years based on its estimated economic life.

AUTO-GRAPHICS, INC.
Notes to Consolidated Financial Statements
September 30, 2009

(continued)

1. Summary of significant accounting policies *(continued)*

Equipment is stated at cost less accumulated depreciation and amortization. Leasehold improvements are amortized over the shorter of the useful life of the asset or the term of the lease. Depreciation and amortization is based on the straight-line method over the estimated useful life of the asset and commences in the year the asset is placed in and/or is available for service or sale using the half-year convention methods. Depreciation and amortization is computed using straight-line methods over the following estimated useful lives:

Equipment	5 years
Furniture and fixtures	5-10 years

Equipment at September 30, 2009, consists of the following:

Equipment	\$ 1,850,458
Furniture and fixtures	<u>327,190</u>
	2,177,648
Less accumulated depreciation	<u>1,980,197</u>
Equipment, net	<u>\$ 197,451</u>

Impairment of long-lived assets

The Company periodically assesses the recoverability of the carrying amounts of long-lived assets. An impairment loss is recognized when expected undiscounted future cash flows are less than the carrying amount of the asset. The impairment loss is the differences by which the carrying amount of the asset exceeds its fair value. There were no impairment losses or reserves as of September 30, 2009.

Earnings per share

SFAS No. 128, "Earnings per Share" requires the presentation of basic earnings per share and diluted earnings per share. Basic and diluted earnings per share computations presented by the Company conform to the standard and are based on the weighted average number of shares of Common Stock outstanding during the year.

AUTO-GRAPHICS, INC.
Notes to Consolidated Financial Statements
September 30, 2009

(continued)

1. Summary of significant accounting policies *(continued)*

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations:

Year ended September 30, 2009

	Net Income	Shares	Per Share
Basic earnings per share			
Net income available to common stockholders	\$ (11,916)	4,273,210	\$ (0.00)
Effect of dilutive securities stock options	-	505,067	
Diluted earnings per share			
Net income available to common stockholders	\$ (11,916)	4,778,277	\$ (0.00)

Share-based compensation

The Company adopted SFAS No. 123 (revised 2004), *Share-Based Payment*, which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. SFAS No. 123(R) supersedes the Company's previous accounting under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123(R) requires companies to estimate the fair value of share-based payment awards to employees and directors on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's consolidated statements of income. As share-based compensation expense recognized in the consolidated statements of income is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Share-based compensation expense recognized under SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Share-based compensation expense recognized under SFAS No. 123(R) for employees and directors for the quarter ended September 30, 2009, was \$17,100, and is included in general and administrative expense. For the quarter ended September 30, 2009, cash flows from operations and cash flows from financing activities were not affected by the adoption of SFAS No. 123(R).

The Company determined the fair value of share-based payment awards to employees and directors on the date of grant using the Black-Scholes model, which is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company's expected stock price volatility over the expected term of the awards, and actual and projected employee stock option exercise behaviors.

AUTO-GRAPHICS, INC.
Notes to Consolidated Financial Statements
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(continued)

1. Summary of significant accounting policies *(continued)*

The Company used the simplified-method to determine an award's expected term and the Company's historical volatility to approximate expected volatility.

The Company has elected to adopt the detailed method provided in SFAS No. 123(R) for calculating the beginning balance of the additional paid-in capital pool (APIC pool) related to the tax effects of employee share-based compensation, and to determine the subsequent impact on the APIC pool and consolidated statements of cash flows of the tax effects of employee share-based compensation awards that are outstanding upon adoption of SFAS No. 123(R). (See Note 6 below.)

Comprehensive income

The Company accounts for comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income", which establishes standards for reporting and display of comprehensive income and its components in interim and annual financial statements. Comprehensive income is defined as the change in the equity (net assets) of an entity during a period from transactions, events and circumstances excluding all transactions involving investments by or distributions to the owners.

Supplemental disclosure of cash flow information

The Company paid no net interest in 2008 and no interest in the three quarters of 2009. The Company paid income taxes in the amount of \$11,015 for 2008.

Segment reporting and concentrations

The following table summarizes sales based on the location of the customers and assets based on the location of the asset presented on the basis of generally accepted accounting principles for the year ended September 30, 2009.

	2009
Geographic areas	
Net sales:	
United States	\$ 3,371,396
Foreign – Canada/Other	485,328
Long-lived assets, net:	
United States	\$ 2,653,781
Foreign – Canada	-

(continued)

AUTO-GRAPHICS, INC.
Notes to Consolidated Financial Statements
September 30, 2009

1. Summary of significant accounting policies *(continued)*

There is one customer account which represents more than 10% of the Company's net sales for the year ended September 30, 2009. There are no customer accounts which represent more than 10% of the Company's accounts receivable as of September 30, 2009.

Recently issued accounting pronouncements

In December 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. 48-3, which defers the effective date of FASB Interpretation No. 48 (FIN 48) *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109*. FIN 48 clarifies the uncertainty in income taxes recognized in financial statements. It requires evaluation of a tax position being taken. It prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It further provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FSP No. 48-3 requires the nonpublic entity to disclose the fact that it elects to defer the application of FIN 48 and further disclose its accounting policy for evaluating uncertain tax positions. The provisions of FIN 48 will become effective for fiscal years beginning after December 15, 2008. Management has elected to defer the application of FIN 48, while it continues to evaluate the effects.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities – Including an amendment of FASB Statement No.115*. SFAS No. 159 permits entities to measure financial instruments and certain other items at fair value on a prospective basis at certain election dates. Unrealized gains and losses on items for which the fair value option has been elected are to be reported in earnings at each subsequent reporting date. The provisions of this statement are effective as of the beginning of an entity's first fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, *Fair Value Measurements*. The adoption of SFAS No. 159 did not have a material impact upon the Company's consolidated financial condition or results of operations.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 establishes framework for measuring fair value and expands disclosures about fair value measurements. It clarifies the definition of fair value and provides guidance on applying fair value measurements to assets and liabilities. The provisions of this statement are effective for all financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of SFAS No. 157 did not have a material impact upon the Company's consolidated financial condition or results of operations.

AUTO-GRAPHICS, INC.
Notes to Consolidated Financial Statements
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2. Credit facilities

In June 2009, the bank renewed and extended the Company's \$500,000 revolving line of credit for working capital through May 31, 2011, and a second \$1,000,000 five-year term facility to fund major investments through May 31, 2010. The interest rate on both credit facilities is the bank prime rate (3.25% at May 31, 2009) plus a 1.0% margin or 4.25% at May 31, 2009. The credit facility is secured by all of the assets of the Company and its subsidiary, A-G Canada Ltd. and requires that the Company maintain certain minimum financial covenant ratios. There were no outstanding borrowings under either credit facility and there is \$1,500,000 in available credit as of September 30, 2009.

3. Income taxes

The provision for income taxes consists of the following for the year ended December 31, 2008:

<u>Current income taxes based on income</u>	
Federal	\$ -
State	11,000
Foreign	-
Total current income tax provision	<u>11,000</u>
<u>Deferred income taxes based on income</u>	
Federal	-
State	-
Foreign	-
Total deferred income tax provision	<u>-</u>
Total income tax provision	<u>\$ 11,000</u>

A reconciliation of the provision for income taxes based on income follows for the year ended December 31, 2008:

Statutory rate	34%
Statutory U.S. Federal income tax	\$ 69,000
Adjustments for foreign tax rates	17,000
Permanent differences	8,000
State tax, net of federal benefit	7,000
Change in federal valuation allowance	(87,000)
Other	(3,000)
Total income tax provision	<u>\$ 11,000</u>

(continued)

AUTO-GRAPHICS, INC.
Notes to Consolidated Financial Statements
September 30, 2009

3. Income taxes *(continued)*

The deferred income tax assets and liabilities are composed of the following at December 31, 2008:

<u>Current deferred income taxes</u>	
Bad debts/accrued vacation/other	\$ 68,000
<u>Non-current deferred income taxes</u>	
Deferred income tax assets	
Net operating loss	780,000
AMT credits/other	10,000
	790,000
Deferred income tax liabilities	
Tax over book amortization and depreciation	(568,000)
	222,000
Net non-current deferred income tax assets	
Valuation allowance	(298,000)
	(76,000)
Net non-current deferred income tax liability	
	\$ (8,000)

Deferred income tax assets and liabilities are recognized for the expected future tax consequences of events that have been reported in the Company's financial statements or tax returns. The valuation allowance at December 31, 2008 reflects an unrecognized U.S. and foreign tax loss carryforward. At December 31, 2008, the Company had available net operating loss carryforwards of \$2,045,000 for federal income tax purposes, \$955,000 for state income tax purposes and \$169,000 for foreign income tax purposes. These net operating loss carryforwards expire from 2020 to 2023 for federal taxes, 2010 to 2012 for state taxes, and 2010 to 2015 for foreign taxes.

AUTO-GRAPHICS, INC.
Notes to Consolidated Financial Statements
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4. Commitments and contingencies

The Company incurred total facilities, vehicle and equipment lease and rental expense of approximately \$296,000 for year ended December 31, 2008. The Company is obligated under certain non-cancelable operating leases for office facilities and equipment expiring in 2009, 2010 and 2012. (See Note 5 below.)

The following approximates future minimum lease commitments as of December 31:

2009	\$ 300,000
2010	278,000
2011	283,000
2012	<u>292,000</u>
Total minimum lease payments	<u>\$ 1,153,000</u>

Litigation

From time to time, the Company is involved in legal proceedings incidental to its normal business activities. Management does not believe that the outcome of these proceedings will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

5. Related party transactions

The Company previously leased its corporate office facility from a limited partnership owned by a current and former director/stockholder of the Company. On February 16, 2007, the building housing the corporate office facility was sold by the limited partnership to an unrelated and independent third party. The five-year building lease expires December 31, 2012. Rent expense was \$260,000 plus expenses for the year ended December 31, 2008. The Company also renewed a three-year lease through December 31, 2009, on a small sales and support office in Toronto, Canada, for its wholly owned subsidiary, A-G Canada, Ltd.

The Company paid to shareholders, Chairman of the board, and directors a total of \$104,000 in director fees and expenses for the year ended December 31, 2008.

AUTO-GRAPHICS, INC.
Notes to Consolidated Financial Statements
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6. Stockholder's equity

Stock Purchases

On December 21, 2006, a director and member of the Audit Committee retired from the Board of Directors. In association with the retirement, the Company repurchased 637,710 shares of common stock at \$0.85 per share for a total cost of approximately \$542,000 in February 2007 and these shares were retired and returned to authorized but unissued common stock. The Company also fully vested and repurchased the director's 140,000 stock options at \$0.85 per share for a net cost of approximately \$44,000 (net of tax) in June 2007. In addition, the Company repurchased 15,400 shares in 2007. In 2008, the Company fully vested and repurchased 45,500 stock options at \$0.77 per share less each options strike price for a net cost of approximately \$17,650.

2002 Qualified and non-qualified stock option plan

The Company adopted a qualified and non-qualified stock option plan following approval by its shareholders at its 2001 annual shareholder's meeting held on February 27, 2002. The 2002 Stock Option Plan was amended on October 21, 2004, to increase the number of available options to purchase shares to 800,000. Under the plan, the stock option price per share for options granted is determined by the Board of Directors and is based on the market price of the Company's common stock on the date of grant. The stock options vet over four years and no option can be exercised later than ten years from the date it was granted.

The Company determined compensation cost based on the fair value for its fully vested stock options at grant date. Under SFAS 123R, the Company's total compensation expense inception-t-date (net of tax) is approximately \$10,000 and the total compensation expense (net of tax) would be approximately \$18,000 based on current stock option grants.

The fair value for these options was estimated at the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2008:

Expected life	5 years
Risk-free interest rate	4.5%
Expected volatility	30%
Dividend yield	0%
Fair value of options granted at fair market price	\$ 0.28

All options granted were at the fair market price.

(continued)

AUTO-GRAPHICS, INC.
Notes to Consolidated Financial Statements
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6. Stockholder's equity *(continued)*

Transactions involving stock options for 2008 are summarized as follows:

Balance at December 31, 2007	504,900	\$	0.48
Granted	52,000		0.80
Exercised and repurchased	(45,000)		0.52
Forfeited	(10,000)		0.81
Balance at December 31, 2008	<u>501,900</u>	<u>\$</u>	<u>0.47</u>

Additional information with respect to the outstanding options as of December 31, 2008, is as follows:

Option Exercise Price Range	Options Outstanding			Options Exercisable	
	Number of Shares	Average Remaining Contractual Life (yrs)	Weighted Average Exercise Price	Number of Shares	Average Exercise Price
\$0.30 to 0.499	239,900	4.39	\$ 0.34	233,900	\$ 0.34
\$0.50 to 0.699	140,000	7.56	0.55	56,000	0.55
\$0.70 to 0.999	<u>122,000</u>	8.88	0.81	<u>14,000</u>	0.81
	<u>501,900</u>	6.36	\$ 0.47	<u>303,900</u>	\$ 0.40

7. 401(k) Plan

The Company sponsors a defined contribution plan qualified under 401(k) of the Internal Revenue Code for the benefit of its U.S. based employees. All full time employees are eligible to participate. The Company pays the administrative expenses for the plan. Annually, the Company may, at its sole discretion, award an amount as a match against employee contributions to the 401(k) plan. The Company contribution was approximately \$28,000 for the year ended December 31, 2008.