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Consolidated Financial Statements and Report of  
Independent Certified Public Accountants

**ECONOMICS RESEARCH ASSOCIATES**

June 30, 2001 and 2000



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors  
Economics Research Associates

We have audited the accompanying consolidated balance sheets of Economics Research Associates (a California corporation) and Subsidiaries as of June 30, 2001 and 2000, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Economics Research Associates and Subsidiaries as of June 30, 2001 and 2000, and the consolidated results of their operations and their consolidated cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Grant Thornton LLP*

Los Angeles, California  
August 23, 2001

**ECONOMICS RESEARCH ASSOCIATES**  
**CONSOLIDATED BALANCE SHEETS**

	June 30,	
	2001	2000
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 247,000	\$ 395,000
Professional fees receivable less allowance for doubtful accounts of \$341,000 and \$265,000 as of June 30, 2001 and 2000, respectively (Note 3)	4,759,000	3,836,000
Due from related parties (Note 10)	-	5,000
Employee advances receivable	30,000	36,000
Prepaid expenses	162,000	147,000
Deferred tax asset (Note 8)	259,000	201,000
<b>Total current assets</b>	<b>5,457,000</b>	<b>4,620,000</b>
Furniture and equipment, net (Note 4)	253,000	228,000
Deposits	34,000	29,000
	<u><b>\$ 5,744,000</b></u>	<u><b>\$ 4,877,000</b></u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 2,516,000	\$ 1,766,000
Due to related parties (Note 10)	292,000	336,000
Billings in excess of professional fees earned on contracts in progress	458,000	369,000
Income taxes payable	-	25,000
Deferred rent (Note 7)	6,000	82,000
<b>Total current liabilities</b>	<b>3,272,000</b>	<b>2,578,000</b>
Deferred rent (Note 7)	-	6,000
Subordinated debt due to related parties (Note 6)	-	128,000
<b>Total liabilities</b>	<b>3,272,000</b>	<b>2,712,000</b>
Commitments (Note 7)	-	-
<b>Shareholders' equity (Note 9)</b>		
Common stock, \$ .10 par value -		
Class A - 330,000 shares authorized, 99,277 shares issued and outstanding as of June 30, 2001 and 2000, respectively	10,000	10,000
Class B - 330,000 shares authorized, 168,226 and 160,076 shares issued and outstanding as of June 30, 2001 and 2000, respectively	17,000	16,000
Capital in excess of par value	1,052,000	985,000
Retained earnings	1,444,000	1,160,000
	<u>2,523,000</u>	<u>2,171,000</u>
Less: Notes receivable from sale of stock (Note 9)	(51,000)	(6,000)
<b>Total shareholders' equity</b>	<b>2,472,000</b>	<b>2,165,000</b>
	<u><b>\$ 5,744,000</b></u>	<u><b>\$ 4,877,000</b></u>

The accompanying notes are an integral part of these consolidated statements.

**ECONOMICS RESEARCH ASSOCIATES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	For the year ended June 30,	
	<u>2001</u>	<u>2000</u>
Revenues from professional services (including reimbursed expenses of \$3,271,000 and \$2,856,000)	\$ 15,985,000	\$ 13,853,000
Direct cost of professional services	<u>6,900,000</u>	<u>5,892,000</u>
Operating income	9,085,000	7,961,000
Selling, general and administrative expenses	8,564,000	7,466,000
Interest expense	<u>17,000</u>	<u>18,000</u>
Income before provision for income taxes	504,000	477,000
Provision for income taxes (Note 8)	<u>(220,000)</u>	<u>(199,000)</u>
Net income	<u>\$ 284,000</u>	<u>\$ 278,000</u>

The accompanying notes are an integral part of these consolidated statements.

**ECONOMICS RESEARCH ASSOCIATES**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

	Common Stock \$.10 Par Value			Capital in Excess of Par	Retained Earnings	Notes Receivable	Total
	Combined Number of Shares	Class A	Class B				
Balance at June 30, 1999	265,093	\$ 10,000	\$ 17,000	\$ 1,025,000	\$ 882,000	\$ (14,000)	\$ 1,920,000
Purchase of Class B common stock	(5,740)	-	(1,000)	(40,000)	-	-	(41,000)
Receipt of payment on notes receivable	-	-	-	-	-	8,000	8,000
Net income for the year	-	-	-	-	278,000	-	278,000
Balance at June 30, 2000	259,353	10,000	16,000	985,000	1,160,000	(6,000)	2,165,000
Issuance of Class B common stock	8,735	-	1,000	73,000	-	(48,000)	26,000
Purchase of Class B common stock	(585)	-	-	(6,000)	-	-	(6,000)
Receipt of payment on notes receivable	-	-	-	-	-	3,000	3,000
Net income for the year	-	-	-	-	284,000	-	284,000
Balance at June 30, 2001	<u>267,503</u>	<u>\$ 10,000</u>	<u>\$ 17,000</u>	<u>\$ 1,052,000</u>	<u>\$ 1,444,000</u>	<u>\$ (51,000)</u>	<u>\$ 2,472,000</u>

The accompanying notes are an integral part of this consolidated statement.

**ECONOMICS RESEARCH ASSOCIATES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the year ended June 30,	
	2001	2000
<u>Cash flows from operating activities:</u>		
Net income	\$ 284,000	\$ 278,000
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation and amortization	143,000	129,000
Common stock issued to stock bonus plan	6,000	-
Change in assets and liabilities -		
Increase in trade accounts receivable	(923,000)	(427,000)
(Decrease) increase in amounts due from related parties	5,000	(5,000)
Decrease in employee advances	6,000	58,000
Increase in prepaid expenses	(15,000)	(22,000)
Increase in deferred income taxes	(58,000)	(16,000)
Increase in deposits	(5,000)	-
Increase in accounts payable and accrued expenses	750,000	276,000
(Decrease) increase in amounts due to related parties	(44,000)	171,000
Increase in billings in excess of work-in-process	89,000	66,000
Decrease in income taxes payable	(25,000)	(110,000)
Decrease in deferred rent	(82,000)	(82,000)
Net cash provided by operating activities	131,000	316,000
<u>Cash flows from investing activities:</u>		
Acquisition of property and equipment	(168,000)	(91,000)
<u>Cash flows from financing activities:</u>		
Receipt of payment on common stock notes receivable	3,000	8,000
Proceeds from issuance of common stock	20,000	-
Payment for acquisition of common stock	(6,000)	(41,000)
Repayment of long-term debt	(128,000)	-
Net cash used in financing activities	(111,000)	(33,000)
Net increase in cash and cash equivalents	(148,000)	192,000
Cash and cash equivalents at beginning of year	395,000	203,000
Cash and cash equivalents at the end of year	\$ 247,000	\$ 395,000
<u>Supplemental disclosure of cash flow information:</u>		
Interest paid	\$ 28,000	\$ 4,000
Income taxes paid	\$ 303,000	\$ 325,000
<u>Noncash investing and financing activities</u>		
Issuance of common stock in exchange for notes receivable	\$ 51,000	\$ -

The accompanying notes are an integral part of these consolidated statements.

## **ECONOMICS RESEARCH ASSOCIATES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2001 and 2000

#### **NOTE 1 - THE COMPANY**

Economics Research Associates (the "Company") is a diversified consulting firm that provides a wide range of analytical services in economics, finance, marketing, planning and management to public and private clientele. The Company maintains offices and provides the majority of its services to clients in and around the following cities: Los Angeles (corporate headquarters), San Francisco, San Diego, Chicago, Washington D.C., and London (United Kingdom). Revenues are derived from projects in the following specialties: real estate and land use, recreation and entertainment, resorts and hotels, public facilities, and economic planning and policy. The Company has three wholly owned subsidiaries.

Generally, the Company's services are provided to its clients based on fixed price contracts which vary in duration from several weeks up to a year.

#### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements are prepared on the accrual basis of accounting.

##### **Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its three wholly owned subsidiaries. All material intercompany items have been eliminated.

##### **Foreign Currency Translation**

Assets and liabilities of foreign operations are translated into U.S. dollars at current exchange rates. Income and expenses are translated into U.S. dollars at average rates of exchange prevailing during the period. Adjustments resulting from translating foreign functional currency financial statements into U.S. dollars are not significant to the financial statements.

##### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported results of operations during the reporting period. Actual results could differ from those estimates.

## **ECONOMICS RESEARCH ASSOCIATES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2001 and 2000

#### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

##### **Recognition of Revenue**

Contract revenue is recognized utilizing the percentage of completion method based upon costs incurred as a percentage of total anticipated costs, net of amounts not expected to be billable. Under this method, the timing of revenue recognition does not necessarily coincide with the timing of billings to customers. When a billing is made in advance of revenue recognition, it is classified as billings in excess of work-in-process. Conversely, when revenue is recognized in advance of a billing, it is classified as an unbilled receivable (Note 3).

##### **Furniture and Equipment**

Furniture and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful life of the asset. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset. Expenditures for maintenance and repairs are charged to operations as incurred, while renewals and betterments are capitalized. For tax purposes, the Company utilizes the double declining-balance method of depreciation at a rate of 200 percent of the straight-line method. The estimated useful lives of the major classification of furniture and equipment are as follows:

Office furniture and equipment	5 - 10 years
Computer equipment	3 - 5 years

##### **Income Taxes**

The Company utilizes an asset and liability approach in its accounting for income taxes. This approach requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities by applying enacted statutory tax rates to these differences.

##### **Cash and Cash Equivalents**

For purposes of reporting cash flows, cash and cash equivalents include investments with maturities of three months or less from the original dates of purchase.

## ECONOMICS RESEARCH ASSOCIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2001 and 2000

#### **NOTE 3 - TRADE ACCOUNTS RECEIVABLE**

Trade accounts receivable are comprised of the following:

	June 30,	
	2001	2000
Amounts billed to customers	\$3,081,000	\$2,425,000
Allowance for doubtful accounts	(341,000)	(265,000)
	<u>2,740,000</u>	<u>2,160,000</u>
Professional fees earned in excess of billings on contracts in progress	2,562,000	2,350,000
Deposits received from customers	(543,000)	(674,000)
	<u>2,019,000</u>	<u>1,676,000</u>
Total trade accounts receivable	<u>\$4,759,000</u>	<u>\$3,836,000</u>

#### **NOTE 4 - FURNITURE AND EQUIPMENT**

Furniture and equipment are comprised of the following:

	June 30,	
	2000	2001
Office furniture and equipment	\$750,000	\$946,000
Leasehold improvements	28,000	28,000
	<u>778,000</u>	<u>974,000</u>
Less accumulated depreciation	(525,000)	(746,000)
Total property and equipment, net	<u>\$253,000</u>	<u>\$228,000</u>

The company disposed of \$364,000 of fully depreciated fixed assets during fiscal year 2001, with no gain or loss recognized.

#### **NOTE 5 - CREDIT FACILITY**

The Company has a line of credit (the "Agreement") with a bank which provides for borrowings of up to \$1,250,000 in the form of short-term notes. The Agreement expired in December 2001. Borrowings under the line of credit bear interest at the prime rate plus 1.5 percent and are secured by all of the assets of the Company. The prime rate at June 30, 2001 was 6.75% percent. There were no outstanding borrowings under the Agreement as of June 30, 2001 or June 30, 2000.

## ECONOMICS RESEARCH ASSOCIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2001 and 2000

#### **NOTE 5 - CREDIT FACILITY - Continued**

The Agreement calls for certain financial covenants and restrictions which include, among other things, minimum net worth and profitability and limits on capital expenditures. As of June 30, 2001, the Company was in compliance with all of these covenants.

#### **NOTE 6 - SUBORDINATED DEBT**

The Company had issued and outstanding subordinated debt in the amount of \$128,000 at June 30, 2000. Of this amount, \$40,000 was payable to Drivers Jonas (UK) and \$88,000 was payable to certain employees of the Company at June 30, 2000 (Note 10). Interest is accrued at 12 percent and is paid annually. The principal of \$128,000 was prepaid on April 22, 2001. Accrued interest payable on the subordinated debt of \$17,000 is included in the amounts due to related parties at June 30, 2000. Interest expense relating to the subordinated debt was \$14,000 and \$16,000 in fiscal years 2001 and 2000, respectively.

#### **NOTE 7 - COMMITMENTS**

The Company leases its offices and certain automobiles under operating leases. Certain operating leases provide for escalation adjustments in accordance with consumer price indices. In August 1991, the Company entered into a lease for its office in Los Angeles, California. Under the terms of this lease, the Company received 22 months of occupancy free of rental payments. Total payments required under the lease are recognized as rent expense on a straight-line basis over the term of the lease. Cash payments made for this lease exceeded straight-line rent expense by \$82,000 during fiscal years 2001 and 2000. Future minimum payments under all the Company leases are as follows:

#### **NOTE 7 - COMMITMENTS - Continued**

##### Year ending June 30,

2002	\$656,000
2003	551,000
2004	560,000
2005	574,000
Thereafter	<u>2,843,000</u>
Minimum lease payments	<u>\$5,184,000</u>

Rent expense for all operating leases was \$748,000 and \$744,000 for the years ended June 30, 2001 and 2000, respectively.

## ECONOMICS RESEARCH ASSOCIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2001 and 2000

#### **NOTE 8 - INCOME TAXES**

The components of the provision for income taxes are as follows:

	<u>June 30,</u>	
	<u>2001</u>	<u>2000</u>
Current	\$ 278,000	\$ 215,000
Deferred	(58,000)	(16,000)
Provision for income taxes	<u>\$ 220,000</u>	<u>\$ 199,000</u>

Net current deferred tax assets are comprised of the following:

	<u>June 30,</u>	
	<u>2001</u>	<u>2000</u>
Allowance for doubtful accounts	\$ 150,000	\$ 117,000
Accrued vacation	123,000	106,000
Accumulated depreciation	(14,000)	(22,000)
Net current deferred tax asset	<u>\$ 259,000</u>	<u>\$ 201,000</u>

The provision for income taxes differs from that which would result from applying the statutory federal rate to corporate net earnings. The difference arises from state income taxes and the portion of travel and entertainment and officer's life insurance expenses which are not deductible for tax purposes.

#### **NOTE 9 - COMMON STOCK**

The Company has two classes of common stock outstanding. Class A and B shares are equal in all respects except that Class B shares have the right to elect a majority of the Board of Directors. The Company's Class B shareholders are employees of the Company. In the event that a shareholder's employment with the Company terminates, the shares are offered for sale to the remaining Class B shareholders, then to the Company and finally to the Class A shareholder.

The Company has received notes receivable from several of its employees in exchange for shares of stock. The notes receivable are recorded as a contra-equity account, notes receivable from sale of stock. The notes are due on various dates through June 2004, with interest rates ranging from 6.5% to 9.0%.

## **ECONOMICS RESEARCH ASSOCIATES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2001 and 2000

#### **NOTE 10 - RELATED PARTY TRANSACTIONS**

The amounts due from related parties represent receivables due from the Company's Class A shareholder, Drivers Jonas (UK) for reimbursement of expenses paid by the Company during fiscal 2001 and 2000. Drivers Jonas (UK) is a consulting firm in the United Kingdom, which owns approximately 37 percent of the outstanding common stock of the Company.

At June 30, 2001 and 2000, the amounts due to related parties include the unpaid portion of \$101,000 and \$67,000, respectively, in travel-related expenses incurred by Drivers Jonas (UK). Also included in the balances are amounts due to Drivers Jonas (UK) and employees of the Company for reimbursement of expenses paid on behalf of the Company. The amount included in subordinated debt due to related parties is payable to Drivers Jonas (UK) and certain employees of the Company (Note 6).

Rent expense paid to Drivers Jones (UK) totaled \$120,000 and \$59,000 in fiscal years 2001 and 2000, respectively, is included in selling, general, and administrative expenses.

#### **NOTE 11 - EMPLOYEE BENEFIT PLANS**

All employees of the Company who have completed six months of employment are eligible to participate in the Company's Stock Bonus Plan (the "Plan"). Vesting in the Plan occurs at the rate of 20 percent after three years of service, increasing by 20 percent each year thereafter with 100 percent vesting occurring in the seventh year. Contributions to the Plan are at the discretion of the Board of Directors. The company contributed 585 shares of its stock valued at \$6,000 to the Plan during the year ended June 30, 2001, and recorded plan expenses in the same amount. There were no contributions of stock to the Plan during the year ended June 30, 2000.

The Company has a second profit sharing plan (the "Second Plan") which is qualified under Section 401(k) of the Internal Revenue Code. Eligibility requirements, vesting and Company contributions under the Second Plan are the same as under the Company's Stock Bonus Plan. At the beginning of each fiscal year, the Board of Directors approves the rate at which the Company matches employee contributions. During fiscal 2001 and 2000, the Company made annual matching contributions to the Second Plan of \$152,000 and \$137,000, respectively. In addition, the Company has approved discretionary contributions of \$230,000 and \$220,000 to its profit sharing plan for the years ended June 30, 2001 and 2000, respectively. The net assets of the Second Plan are approximately \$6,427,000 and \$6,429,000 at June 30, 2001 and 2000, respectively.

## **ECONOMICS RESEARCH ASSOCIATES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2001 and 2000

#### **NOTE 12 - CONCENTRATION OF CREDIT RISK**

The Company maintains its cash balance in three financial institutions located in Los Angeles and the United Kingdom. One of these institutions is insured by the Federal Deposit Insurance Corporation up to \$100,000. Uninsured amounts held at these financial institutions totaled approximately \$309,000 and \$641,000 at June 30, 2001 and 2000, respectively.

#### **NOTE 13 - LITIGATION**

The Company is a defendant in a lawsuit. The Management believes that the lawsuit is without merit and that the cost of defense will not have a material impact on the financial statements.