

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

For the fiscal year ended March 31, 1988
Commission File No. 33-7625-FW

THE SOFTWARE TOOLWORKS, INC.
(Exact name of Registrant as specified in its charter)

Delaware
State or other jurisdiction of
incorporation or organization

95-4152257
(I.R.S. Employer
Identification No.)

13557 Ventura Boulevard
Sherman Oaks, California 91423
(Address of principal executive offices)

(818) 907-6789
Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) or 12(g) of the
Act:

None
Title of Class

Securities registered pursuant to Section 15(d) of the Act:

Common Stock
\$.001 Par Value Par Share
(Title of Class)

Indicate by check mark whether the Registrant (1) has
filed all reports required to be filed by Section 13 or 15(d) of
the Securities Exchange Act of 1934 during the preceding 12 months
(or for such shorter period that the Registrant was required to
file such reports), and (2) has been subject to such filing
requirements for the past 90 days.

Yes X No _____

The aggregate market value of the Registrant's voting stock held by non-affiliates as of June 9, 1988 computed with reference to the average bid and asked prices based upon information obtained by management from market makers of Registrant's common stock was \$5,643,750. For this purpose, it was assumed that all of the 693,000,000 shares of Registrant's sole class of common stock issued in connection with the acquisition of The Software Toolworks, Ltd. by Registrant (as discussed in Item 1 below) were held by affiliates. This determination is not necessarily conclusive for other purposes. As of June 9, 1988, there were a total of 908,000,000 shares of Registrant's common stock issued and outstanding, including the shares issued in connection with the aforementioned acquisition.

PART I

Item 1. Business

General Development of Business

The Software Toolworks, Inc. ("Registrant") was originally incorporated in the State of Utah on April 7, 1986 under the name of Deseret-Western Venture Capital, Inc., for the purpose of investing in any and all types of assets, properties and businesses. The Registrant issued 5,000,000 shares of its common stock to its officers, directors and promoters for the aggregate sum of \$5,000. On October 15, 1986 the United States Securities and Exchange Commission granted effectiveness to a Registration Statement on Form S-18, filed by the Registrant in the Fort Worth Regional Office. The Registration Statement was for an offering of 10,000,000 Units. Each Unit consisted of one share of common stock at \$.001 par value and ten "A Warrants" to purchase ten shares of common stock at \$.015 per share exercisable any time before October 15, 1987; ten "B Warrants" to purchase ten shares of common stock at the price of \$.02 per share exercisable any time before October 15, 1988; and five "C Warrants" to purchase five shares of common stock at the price of \$.025 exercisable any time before October 15, 1989. The A, B, and C Warrants were immediately detachable and could be traded separately. The initial public offering was closed on February 5, 1987 after the sale of the 10,000,000 Units (\$100,000). Since June 1987, the public shareholders have exercised all of their A and B Warrants resulting in \$3,500,000 total proceeds to the Registrant and the issuance of an additional 200,000,000 shares to the warrant holders. The C Warrants remain outstanding.

On January 21, 1988, Registrant and The Software Toolworks, Ltd., a California corporation ("Toolworks"), entered into an agreement whereby Toolworks was acquired by Registrant as a wholly-owned subsidiary in a stock-for-stock transaction in return for restricted common shares. The transaction was approved at a special meeting of Registrant's shareholders on that date. At such meeting, the shareholders elected new members to the Registrant's Board of Directors; approved the change of the Registrant's name to "The Software Toolworks, Inc."; approved an increase of the authorized capital from 500,000,000 to 1,500,000,000 common voting shares each with a par value of \$.001; and approved a change of the corporate domicile from Utah to the State of Delaware. The transaction was consummated on February 2, 1988.

Toolworks was incorporated in California in 1980 and was one of the first nationally recognized publishers of micro-computer software. At that time, the majority of personal computer owners were home hobbyists and, in the main, the software

market consisted of highly technical programming languages, system utilities and other applications programs.

As of the fourth quarter of 1984, Toolworks had brought over 40 products to market, and the company had earned a reputation as a developer and publisher of low-cost yet high-quality productivity, utility, and programming language products. By 1985, the personal computer software industry had evolved to a point where distribution, marketing, packaging, and promotion had become as important to commercial success as the technical excellence of the product.

In early 1985, Toolworks licensed the programs "Adventure" and "Eliza" to Software Country, a California corporation, a Beverly Hills based software publisher with a strong marketing-distribution orientation. These products became the nucleus for the program "Software Golden Oldies, Vol. I."

The commercial success of "Software Golden Oldies, Vol. I" led to a joint venture with Software Country for the development of "The Chessmaster 2000." By adding the marketing expertise of Software Country to the technical abilities of Toolworks' staff, "The Chessmaster 2000" became a critically acclaimed software product winning the software industry's version of the Oscar--The Software Publisher's Association Entertainment Product of the Year for 1986-1987. The product was certified Gold (over 100,000 units sold) after only seven (7) months in release.

Following the commercial success of "The Chessmaster 2000," Software Country and Toolworks decided to formalize the relationship between the two companies. A merger was effected in October 1986, with Toolworks as the surviving entity.

In November 1986, Toolworks acquired Priority Software Packaging, Inc., a California corporation ("Priority"), as a wholly-owned subsidiary. Priority is a diskette duplicator, software packager, and fulfillment house located in Santa Ana, California. By vertically integrating through this acquisition, Toolworks is assured of a reliable, high-quality manufacturing source for the products published by Toolworks. In addition, exclusive of work on behalf of Toolworks, Priority is generating significant revenues by supplying its services to some of the largest software companies in the industry.

As used in this Report, the term "Registrant" includes Toolworks and Priority and the term "Toolworks" includes Priority, unless the context requires otherwise.

Products

During the fiscal year ended March 31, 1988, Toolworks established itself as an important factor in the educational software market with a state-of-the-art typing tutor, "Mavis Beacon Teaches Typing." With the release of "Mavis Beacon Teaches Typing", Toolworks has become a leader in typing teaching programs, a market which is significantly larger than chess. In addition, Toolworks recently released its latest product having personal and business productivity applications, "Twist & Shout". "Twist & Shout" is a sideways printing program which takes printouts which are generally wide (like those made by spreadsheet programs) and prints them sideways in a continuous stream. This eliminates the need to paste or tape together these commonly printed reports. These product releases, together with the software products described above, are consistent with management's overall strategy of establishing Toolworks as a market leader in the three (3) major areas of high volume home software applications: Entertainment, Education and Productivity.

The computer software industry is characterized by rapid technological change, which requires a continuous high level of expenditures for the enhancement of existing products and the development of new products. Registrant is committed to the creation of new products and intends to continue the enhancement of its existing products. Future releases of software products are expected over the next twelve months.

Some of Registrant's products have been the original creative work of its staff designers, while others have been designed by individuals or entities independent of Registrant. When Registrant licenses a software product or publication from an independent author, it typically pays the author a percentage royalty based on net revenues generated by the product. Such royalties are within industry levels, typically 5% to 15%.

The continued market acceptance of Registrant's products is dependent, among other things, upon its ability to attract and retain software designers, to anticipate and adapt to changes in hardware and software technologies and marketing and to produce software with commercial market appeal.

Sales and Distribution

In February 1987, Toolworks entered into an agreement with Electronic Arts, the largest distributor of home personal computer software in the United States, pursuant to which Electronic Arts has the right of first refusal for the exclusive domestic retail distribution of Toolworks' software products. The agreement provides for a two-year term, which term is automatically extended for an additional two years unless

terminated by either of the parties. This agreement gives Toolworks access to the Electronic Arts dealer network and enables Toolworks to obtain sufficient initial orders to profitably develop any new software product. Electronic Arts currently is distributing under this arrangement "Software Golden Oldies, Vol. I", "The Chessmaster 2000", "Mavis Beacon Teaches Typing" and "Twist & Shout".

In July 1987, Toolworks entered into an agreement with Electronic Arts for the European retail distribution of its software products. Under the terms of this agreement, Toolworks is granted access to a significant market that had been too expensive and difficult to penetrate. At the present time, "The Chessmaster 2000" is being distributed in Europe under this arrangement.

Toolworks' practice is to ship its products promptly upon receipt of purchase orders. Consequently, backlog is not material to its business.

Toolworks has an ongoing "stock balancing" program to permit Electronic Arts to return limited amounts of products remaining in its inventory in exchange for other Toolworks products of equal value.

Several of Toolworks' products are bundled (i.e., included with hardware products). In January 1988, a long-term contract was signed with a major manufacturer and merchandiser of personal computers and compatible hardware providing for the inclusion of several of Toolworks' products with the computer hardware products and for development of foreign language translations of the same.

Toolworks' software products carry a limited 30 day warranty. Returns of defective products under such warranty have been negligible to date.

Manufacturing

Toolworks' products consist of flexible ("floppy") diskettes on which a software program is recorded; such diskettes are packaged with instructional materials for shipment and sale. All such products are manufactured and assembled by Priority.

The components used in the manufacturing process are widely available from multiple sources. While the Toolworks has not encountered any significant supply problems, the availability of floppy diskettes may change in the future. Any shortages or prolonged delays in obtaining components could adversely impact Registrant's business.

Customers

Registrant believes that most of its end user customers are individuals purchasing the software products for personal or business use. These end users obtain products primarily through purchases from Electronic Arts. No single end user accounted for more than 10% of the Registrant's revenues in the fiscal year ended March 31, 1988.

Sales to Electronic Arts totalled \$2,530,000 for the fiscal year ended March 31, 1988, which accounted for the majority of Registrant's total sales. Upon any termination of the Electronic Arts agreements, Toolworks would be required to seek alternate means of retail distribution of its software products, and there is no assurance that its revenues would not be adversely affected. In addition, the majority of Registrant's accounts receivable (\$690,887 as of March 31, 1988) are derived from sales to Electronic Arts, and accordingly, Electronic Arts' insolvency or other failure to pay the amounts owed would adversely affect Registrant's business.

Competition

Registrant has numerous competitors and potential competitors, many of whom will have considerably greater financial and personnel resources than Registrant. The home computer software industry is highly competitive in the United States and overseas. New competitors may be expected to enter the industry, with the development of new titles. While the total number of competitors may increase in the future, the Registrant expects a small number of leading companies to produce a substantial portion of total industry volume.

Competition in the industry is principally based upon strength in creative product development, product quality, the compatibility of product with popular computer systems, price, sales and distribution support and marketing effectiveness. The Registrant believes that it competes successfully in each of these areas.

Employees

As of June 1, 1988, Registrant had 45 full-time employees, all of whom were principally involved in the business operations of Toolworks and/or Priority. The Registrant believes that its future success will depend, in large measure, on its ability to continue to attract and retain qualified employees. Competition for highly-skilled employees is intense.

None of Registrant's employees is subject to a collective bargaining agreement, and Registrant's has experienced no work stoppages. Registrant believes that its employee relations are good.

Trademarks, Copyrights and Product Protection

Registrant actively seeks to protect its trade identity, trademarks, copyrights and other proprietary information throughout the world. Registrant has registered "Software Toolworks" as a trade name and trademark and obtains copyright protection for its software and trademark protection for each title where such protection is deemed necessary. Copyright and trademark protection is also sought, where necessary, for promotional materials, software instructions and point-of-purchase and advertising materials.

Despite the legal and technical safeguards used by Registrant, it may be possible for competitors or users to copy Registrant's products or to obtain information which Registrant regards as trade secrets. Computer software generally cannot be patented, and existing copyright laws and available technology afford only limited practical protection. Registrant believes that the rapid pace of technological change in the computer software industry makes copyright protection of less significance than such factors as the knowledge and experience of management and software designers and Registrant's ability to develop and market its products.

Information Regarding Industry Segments

Information regarding industry segments is set forth in Note 8 of the Notes to Financial Statements.

Item 2. Properties

The executive offices of the Registrant and Toolworks are presently located at 13557 Ventura Boulevard, Sherman Oaks, California 91423. Such offices are being leased by Registrant. In addition, Priority is leasing space for its facility in Santa Ana, California. Such leases expire at various times. Management believes that the leased premises are sufficient for Registrant's present purposes.

Item 3. Legal Proceedings

There are not presently any material pending legal proceedings to which the Registrant or Subsidiary is a party or of which any of its property is subject and no such proceedings are known to the Registrant to be threatened or contemplated

against it. However, the Registrant and its former management have received a subpoena duces tecum from the Securities and Exchange Commission pursuant to a formal order of private investigation concerning certain issuers, and have responded by submitting documents. Prior management also conducted a telephone conference with representatives of the Securities and Exchange Commission. The Registrant is not aware of the intent or scope of this investigation.

Item 4. Submission of Matters to a Vote of Security Holders

During the fourth quarter of the fiscal year covered by this Report, the following matters were submitted to the Registrant's shareholders for consideration:

On January 21, 1988, a special meeting of the shareholders of Deseret-Western Venture Capital, Inc. was held at the offices of the corporation in Bellaire, Texas. At the meeting, shareholders approved by an affirmative vote (in person or by proxy) of in excess of 90% of the issued and outstanding shares of common stock the following actions: (i) the issuance of 693,000,000 shares of restricted common stock to the owners of all the capital stock of Toolworks, and to certain finders at the direction of Toolworks in return for all the issued and outstanding shares of stock of Toolworks; (ii) the increase in authorized capital of the corporation from 500,000,000 to 1,500,000,000 common voting shares, each with a par value of \$.001; (iii) the proposed name change from Deseret-Western Venture Capital, Inc. to "The Software Toolworks, Inc."; (iv) the proposed change of corporate domicile from Utah to Delaware; and (v) the election of the Directors as nominated by Toolworks. The Directors so elected are set forth in Item 10 below.

PART II

Item 5. Market for the Registrant's Common Equity and Related Security Holder Matters.

Market Information

The Registrant's common stock began trading in the over-the-counter market in early 1987. Based on information obtained by management from market makers of Registrant's common stock, the following table sets forth certain information with respect to the high and low market quotations (based on the bid quotation) since that time:

<u>Fiscal 1986/87</u>	<u>High</u>	<u>Low</u>
Quarter ended March 31, 1987	\$.01	\$.01
<u>Fiscal 1987/88</u>	<u>High</u>	<u>Low</u>
First Quarter ended June 30, 1987	\$.01	\$.005
Second Quarter ended September 30, 1987	\$.02	\$.01
Third Quarter ended December 31, 1987	\$.0225	\$.01
Fourth Quarter ended March 31, 1988	\$.0225	\$.014

The above quotations are inter-dealer quotations without retail mark-ups, mark-downs or commissions and may not represent actual transactions.

Shareholders

As of June 1, 1988, the number of record holders of the Registrant's common stock was 121.

Dividends

The Registrant has not paid any cash dividends on its common stock to date and does not anticipate or contemplate paying dividends in the foreseeable future.

Warrants and Options

As described in Item 1 above, there are outstanding C Warrants to purchase 50,000,000 shares of Registrant's common stock at the price of \$.025 per share exercisable any time before October 15, 1989. Warrants may only be exercised if the Registrant has a current Registration Statement in effect with the United States Securities and Exchange Commission and the Securities Divisions of the various states.

In May, 1988, Registrant entered into a Stock Option Agreement providing for the issuance of between 28,082,474 shares and 29,628,866 shares of Registrant's common stock (depending on the exercise or non-exercise of the C Warrants) for a purchase price of \$.015 per share. Options as to one-half of such shares vested immediately, and the remainder will vest in May 1989 (subject to acceleration under certain conditions). The vested portion of the options may be exercised at any time before May 1996.

Item 6. Selected Financial Data

The selected financial data set forth below is not covered by opinions of independent certified public accountants and should be read in conjunction with the Financial Statements of the Registrant and related notes appearing elsewhere in this Report. The financial data represents the operations of Toolworks on an historical basis and have been restated to give effect to the reorganization involving Toolworks and Registrant.

Fiscal Year Ended March 31,

	<u>1988</u>	<u>1987</u>	<u>1986</u>
Net Revenues	\$ <u>3,793,606</u>	\$ <u>2,172,536</u>	\$ <u>515,963</u>
Net Income (Loss)	\$ <u>594,017</u>	\$ <u>125,880</u>	\$ <u>(993)</u>
Income (Loss) per common share	\$ <u>.0008</u>	\$ <u>.0003</u>	\$ <u>--</u>
Cash Dividends per common share	\$ <u>--</u>	\$ <u>--</u>	\$ <u>--</u>
Total Assets	\$ <u>4,981,242</u>	\$ <u>686,438</u>	\$ <u>90,102</u>
Long-Term Debt	\$ <u>9,064</u>	\$ <u>--</u>	\$ <u>--</u>
Net Working Capital	\$ <u>3,481,635</u>	\$ <u>57,925</u>	\$ <u>62,554</u>
Retained Earnings (Deficit)	\$ <u>500,176</u>	\$ <u>155,135</u>	\$ <u>76,015</u>
Total Stockholders' Equity	\$ <u>4,091,621</u>	\$ <u>161,095</u>	\$ <u>78,015</u>

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following narrative discusses the results of operations for the fiscal years ended March 31, 1988, 1987 and 1986 of Toolworks on a restated basis to give effect to the reorganization involving Registrant and Toolworks.

Results of Operations - Fiscal Year Ended March 31, 1988 compared with Fiscal Year Ended March 31, 1987.

In the fiscal year ended March 31, 1988 ("fiscal 1987/88") the total revenues of \$3,793,606 reflected an increase of approximately 75% over fiscal year ended March 31, 1987 ("fiscal 1986/87") revenues of \$2,172,536. The most significant source of such increase was the introduction of new products such as "Mavis Beacon Teaches Typing" and increased sales volume of Registrant's existing products. In addition, the revenues derived by Priority's shipping and packaging operations increased by over 600% from \$119,000 to \$885,000.

The cost of sales of \$1,217,199 in fiscal 1987/88 reflected an increase of approximately 86% over fiscal 1986/87 cost of sales of \$655,683. Such increase related generally to the increased sales of Registrant's software products.

Selling, general and administrative expenses showed an increase of approximately 24%, from \$1,291,035 in fiscal 1986/87 to \$1,597,200 in fiscal 1987/88. Such increase was due primarily to the expansion of Registrant's business which caused a general increase in all operating expenses, including salaries, rent and overhead. In addition, due to Registrant's increased sales volume, royalties paid in connection with the licensing of computer software increased by approximately 85%, from \$131,793 to \$244,202.

Interest income increased from zero to \$40,190 as a result of the investment of Registrant's cash surplus. In addition, the financial statements reflect an "unrealized loss" of \$50,000 which relates to the markdown for accounting purposes of Registrant's marketable securities to reflect the decline in market value as of March 31, 1988.

The net income increased by approximately 372%, from \$125,880 in fiscal 1986/87 to \$594,017 in fiscal 1987/88, primarily due to the factors described above.

Results of Operations - Fiscal Year Ended March 31, 1987 compared with Fiscal Year Ended March 31, 1986.

Total revenues for fiscal 1986/87 were \$2,172,536, an increase of approximately 321% over the revenues of \$515,963 for the fiscal year ended March 31, 1986 ("fiscal 1985/86"). Such increase was derived principally from the introduction of new products, such as "The Chessmaster 2000", and increased sales volume of Toolworks' other products.

The cost of sales of \$655,683 in fiscal 1986/87 reflected an increase of approximately 216% over fiscal 1985/86 cost of sales of \$207,583. Such increase related generally to Toolworks' additional sales volume.

Selling, general and administrative expenses increased by approximately 319%, from \$308,481 in fiscal 1985/86 to \$1,291,035 in fiscal 1986/87. Such increase was due primarily to the general expansion of Toolworks' business, including a substantial increase in the number of its programming and research and development personnel, the addition of new office space and the absorption of Priority's operations following its acquisition. As a result, there was a significant increase in Toolworks' salaries, rent and other operating expenses.

Registrant went from a net loss of \$993 in fiscal 1985/86 to a net income of \$125,880 in fiscal 1986/87 primarily due to the factors described above.

Liquidity And Capital Resources

At March 31, 1988, Registrant had in excess of \$3,500,000 in cash and marketable securities and in excess of \$880,000 in accounts receivable and inventory, which amounts greatly exceed Registrant's current liabilities. These excesses resulted primarily from the reorganization involving Registrant and Toolworks during February 1988. Registrant believes that its current sources of liquid assets are adequate for its present and proposed purposes. Registrant continues to operate without a bank line of credit. Registrant's ratio of current assets to current liabilities was 5.06 at March 31, 1988, as compared to 1.1 and 6.17 at March 31, 1987 and 1986, respectively.

Inflation

Registrant's management believes that inflation has not had, and will not have, a material impact on continuing operations.

Item 8. Financial Statements and Supplementary Data

Financial Statements and Schedules dated March 31, 1988 and for the three (3) years then ended are attached hereto as Exhibits and are listed in Item 14 below.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

As noted in Registrant's Reports on Form 8-K dated March 31, 1988 and May 20, 1988, filed with the United States Securities and Exchange Commission, Registrant changed accountants following its acquisition of Toolworks. There are not and have not been any disagreements between the Registrant and its accountants on any matter of accounting principles, practices or financial statement disclosure.

PART III

Item 10. Directors and Executive Officers of the Registrant Identification of Directors and Executive Officers

The current directors and executive officers of the Registrant who will serve until the next annual meeting of shareholders or until their successors are elected or appointed and qualified, are set forth below:

<u>Name</u>	<u>Age</u>	<u>Date of Appointment</u>	<u>Position</u>
Leslie Crane	54	2/2/88	President/Chief Executive Officer/ Chairman of the Board of Directors
Joseph Abrams	36	2/2/88	Executive Vice President/Treasurer/ Director
Walter Bilofsky	42	2/2/88	Senior Vice President/ Assistant Secretary/ Director
Norman Worthington	29	2/2/88	Senior Vice President Secretary/Director
Michael E. Duffy	33	2/2/88	Vice President

Significant Employees

None

Family Relations

Joseph Abrams and Walter Bilofsky, both executive officers and directors of Registrant, are first cousins.

Business Experience

Leslie Crane is a graduate of Tulane University. Mr. Crane was a founder of Software Country, a predecessor by merger of Toolworks. As the President and Chairman of the Board of Directors of Registrant, Mr. Crane is responsible for the overall direction of Registrant's business, including product development and marketing. Prior to his involvement with the company, Mr. Crane spent over 30 years in the communications industry. In the late 1950's, he created radio's "Top 40" format. During the 1960's, Mr. Crane hosted his own late-night talk shown on ABC-TV, "The Les Crane Show", for which he won an Emmy. The 1970's witnessed Mr. Crane's entrance into music publishing where he won a Grammy for the album, "The Desiderata." During the late 1970's, Mr. Crane founded Communications Counseling Services, Inc., a firm that implemented communications training programs for companies such as AT&T, the Xerox Corporation and Southern California Edison.

Joseph Abrams is a graduate of the William E. Simon School of Business (M.B.A., 1974). As Executive Vice-President and Treasurer of Registrant, Mr. Abrams has the day-to-day responsibility for all financial and administrative functions of the company. Mr. Abrams came to Toolworks in 1983 from 7-Eleven of Oklahoma City where he was the Chief Financial Officer for the \$100 Million chain of convenience stores. In addition, Mr. Abrams was an adjunct graduate faculty member at Center State University, teaching finance and business courses in the MBA program from 1978-1983.

Walter Bilofsky is a Phi Beta Kappa graduate of Cornell University with degrees from Massachusetts Institute of Technology in Mathematics and Computer Science. Mr. Bilofsky has been in the computer industry since writing his first program in 1960 and was the founder of Toolworks in 1980. He is one of the founders of Interactive Systems Corporation, a leading developer of UNIX-based software for micro-computers and mini-computers. In addition, Mr. Bilofsky was a consultant in the computer industry. Among his clients were Raytheon, The Rand Corporation, and Yale University.

Norman Worthington received his Juris Doctor at Northwestern School of Law specializing in intellectual property law. Mr. Worthington also co-founded Worthington-Babcock, Inc., where in addition to developing several software products, Mr. Worthington was in charge of all day-to-day operations for this multi-million dollar software distributor. He joined Toolworks in August, 1986.

Michael E. Duffy received his AB, cum laude from Harvard University in 1978. Responsible for the first DEC VAX installation at Harvard, Mr. Duffy has over 14 years of software development experience in areas ranging from operating system internals to computer photo-typesetting. He served as a part-time consultant to Toolworks commencing in 1983 and joined the company in a full-time capacity in January, 1987.

Involvement in Certain Legal Proceedings

There have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions material to the evaluation of the ability and integrity of any director or executive officer during the past five years.

Item 11. Executive Compensation

The executive officers of the Registrant received the following cash compensation during the fiscal year ended March 31, 1988 for services rendered to the Registrant and its subsidiaries:

Cash Compensation Table

<u>Name of Individual</u> (1)	<u>Capacities in which served</u>	<u>Cash Compensation</u> (2)
Leslie Crane	President, Chief Executive Officer and Chairman of the Board	\$179,744
Joseph Abrams	Executive Vice President and Treasurer	\$ 83,282
Walter Bilofsky	Senior Vice President & Assistant Secretary	\$ 56,506
Norman Worthington	Senior Vice President & Secretary	\$ 73,006
Michael E. Duffy	Vice President	\$ 56,923

(1) These individuals were all of the executive officers of Registrant who received compensation.

(2) These amounts include certain cash bonuses which which were declared by the Board of Directors on March 31, 1988 and paid during April, 1988.

The Registrant has no active stock option, retirement, pension or profit sharing plans covering its officers or directors; however, Registrant is in the process of terminating a dormant profit sharing plan for which no contributions were made for the fiscal year ended March 31, 1988. The Board of Directors of the Registrant has been discussing the advisability of adopting one or more employee benefit plans for its employees during the current fiscal year, as to which some or all of its officers may be eligible.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The following persons are all of the officers and directors of Registrant or known to the Registrant to be the beneficial owner of more than 5% percent of the Registrant's voting stock as of June 9, 1988:

<u>Name</u>	<u>Number of Shares Owned</u> (1)	<u>Percent</u> (2)
Leslie Crane	354,111,312	39.00%
Joseph Abrams	76,376,949	8.41%
Walter Bilofsky	76,376,949	8.41%
Norman Worthington	69,433,590	7.65%
Michael E. Duffy	<u>5,821,200</u>	<u>.64%</u>
Total Held By Officers And Directors	<u>582,120,000</u>	<u>64.11%</u>
Blinder International Enterprises, Inc. 6455 S. Yosemite Englewood, CO. 80111	73,920,000	8.14%
Total Held By Officers And Directors And 5% Shareholders	<u>656,040,000</u>	<u>72.25%</u>

(1) Except as described below, all shares are held beneficially and of record and each record shareholder has sole voting and investment power. As noted in the Registrant's Report on Form 8-K dated February 11, 1988 and filed with the United States Securities and Exchange Commission, the persons named above other than Blinder International Enterprises, Inc. have entered into a Voting Trust Agreement whereby Leslie Crane shall have the right to vote each such person's shares (other than 1,000 shares per person withheld from the Voting Trust Agreement) in connection with all shareholders actions. No further changes in control of the Registrant are currently contemplated.

(2) The percentages in this table do not take into effect the issuance of shares, if any, upon the exercise of the C Warrants or the stock options described in Item 5 above.

Item 13. Certain Relationships and Related Party Transactions

The transactions concerning the acquisition by Registrant of all of the outstanding shares of Toolworks during the last quarter of fiscal 1987/88 are described in item 1 above.

Blinder International Enterprises, Inc., who owns of record more than 5% of the Registrant's common stock, may be an affiliate of Blinder, Robinson & Co., Inc., a market maker of Registrant's common stock.

During fiscal 1987/88, prior to its acquisition by Registrant, Toolworks borrowed from Messrs. Crane, Abrams and Bilofsky a total of \$117,000 for working capital purposes, which amount was repaid in its entirety later in the year, together with interest at the rate of 9% per annum.

In June, 1987, Toolworks repurchased and retired all of the shares of capital stock held by one of the founders of Software Country, the predecessor by merger of Toolworks, which constituted 17% of the then outstanding shares of Toolworks capital stock. The consideration for such shares and the transferor's agreement not to compete with Toolworks prior to March 1, 1988 totalled \$250,000, which was payable \$100,000 in cash and the remainder in the form of a promissory note, bearing interest at 10% per annum, which was paid in its entirety later in the fiscal year.

No member of management is indebted to the Registrant.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) (1) Financial Statements

The following Financial Statements are filed as part of this Report:

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(2) Financial Statement Schedules

Financial Statement Schedules have been omitted because they are inapplicable, not required, or the information is included in the Financial Statements or Notes thereto.

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(3) <u>Exhibit Index</u>	
Exhibit 3.1 - Certificate of Incorporation of Registrant.	37
Exhibit 3.2 - By-Laws of Registrant.	45
Exhibit 9 - Voting Trust Agreement.	61
Exhibit 10.1 - Agreement and Plan of Reorgani- zation dated January 21, 1988 between Registrant and share- holders of Toolworks.	74
Exhibit 10.2 - Articles of Amendment to Articles of Incorporation of Deseret- Western Venture Capital, Inc., changing its name to "The Software Toolworks, Inc."	90

Exhibit 10.3 -	Plan and Agreement of Merger between The Software Toolworks, Inc. (a Delaware corporation) and The Software Toolworks, Inc. (a Utah corporation), together with the Certificate of Ownership and Merger and the Articles of Merger executed pursuant thereto.	94
Exhibit 10.4 -	Agreement dated June 22, 1987 between Toolworks and David Badley, providing for Toolworks' repurchase of shares.	110
Exhibit 10.5 -	Lease dated as of October 16, 1986, between Toolworks and R & J Properties, Ltd., as amended, pertaining to Toolworks' offices.	120
Exhibit 22 -	The only subsidiary of Registrant is The Software Toolworks, Ltd., a California corporation. The only subsidiary of The Software Toolworks, Ltd. is Priority Software Packaging, Inc., a California corporation.	N/A

(b) The following Reports on Form 8-K were filed since January 1, 1988:

1. 8-K Dated January 21, 1988 Reporting Shareholder Approval for the Acquisition of The Software Toolworks, Ltd. and a Change in Management
2. 8-K Dated February 2, 1988 Reporting Changes in Control of Registrant and Acquisition or Disposition of Assets
- 2A. Form 8 Dated April 1, 1988 Including Financial Statements and Exhibits Amending Form 8-K Dated February 2, 1988
3. 8-K Dated February 11, 1988 Reporting Changes in Control of Registrant
4. 8-K Dated March 31, 1988 Reporting a Change of Auditor
5. 8-K Dated May 20, 1988 Reporting a Change of Auditor

SIGNATURES

Pursuant to the requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized on the 22nd day of June, 1988.

THE SOFTWARE TOOLWORKS, INC.

By /s/ Leslie Crane
Leslie Crane
Principal Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 22nd day of June, 1988.

<u>Signature</u>	<u>Capacity</u>
<u>/s/ Leslie Crane</u> Leslie Crane	President, Chairman of the Board, and Director (Principal Executive Officer)
<u>/s/ Joseph Abrams</u> Joseph Abrams	Executive Vice President, Treasurer and Director (Principal Financial and Accounting Officer)
<u>/s/ Walter Bilofsky</u> Walter Bilofsky	Senior Vice President, Assistant Secretary and Director
<u>/s/ Norman Worthington</u> Norman Worthington	Senior Vice President, Secretary and Director

Supplemental Information to be Furnished with Reports Filed Pursuant to Section 15(d) of the Act by Registrants Which Have Not Registered Securities Pursuant to Section 12 of the Act.

The Registrant is furnishing to the United States Securities and Exchange Commission for its information at the time of filing this Report four copies of the proxy statement and other proxy soliciting materials sent to the Registrant's security holders with respect to the Special Meeting of Shareholders held on January 21, 1988. In addition, the Registrant intends to solicit proxies with respect to the election of Directors at the next annual meeting and undertakes to furnish copies of any proxy soliciting materials relating thereto to the Commission when it is sent to Registrant's security holders.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
The Software Toolworks, Inc.

We have examined the consolidated balance sheets of The Software Toolworks, Inc., as of March 31, 1988, and 1987, and the related consolidated statements of operations, changes in stockholders' equity, and changes in financial position for each of the three years in the period ended March 31, 1988. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and other such auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of The Software Toolworks, Inc., as of March 31, 1988, and 1987, and the results of its operations, changes in stockholders' equity, and changes in financial position for each of the three years in the period ended March 31, 1988, in conformity with generally accepted accounting principles applied on a consistent basis.

Neil James & Associates, PC

Neil, James & Associates, PC
Certified Public Accountants

Englewood, Colorado
May 6, 1988

The Software Toolworks, Inc.
 Consolidated Balance Sheets

	<u>March 31,</u> 1988	<u>March 31,</u> 1987
ASSETS		
Current assets:		
Cash	\$ 2,485,681	\$ 11,157
Marketable securities (Note 3)	950,000	-
Accounts receivable	690,887	503,398
Inventory	193,003	59,303
Prepaid expenses	19,879	1,468
Total current assets	<u>4,339,450</u>	<u>575,326</u>
Property and equipment, at cost		
Automobiles	17,584	-
Machinery and equipment	221,244	66,658
Furniture and fixtures	115,193	96,264
	<u>354,021</u>	<u>162,922</u>
Less: accumulated depreciation	103,200	60,607
	<u>250,821</u>	<u>102,315</u>
Software development costs (Note 11)	318,972	-
Other assets	71,999	8,797
	<u>390,971</u>	<u>8,797</u>
	\$ 4,981,242	\$ 686,438
	=====	=====

The accompanying notes are an integral part of the financial statements.

The Software Toolworks, Inc.
Consolidated Balance Sheets
(Continued)

	<u>March 31,</u> 1988	<u>March 31,</u> 1987
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 273,224	\$ 130,211
Accrued expenses (Note 10)	263,593	297,928
Due to shareholders (Note 10)	-	2,295
Current portion of long-term debt (Note 5)	2,725	-
Deferred income taxes (Note 2)	19,390	19,390
Income taxes payable (Note 2)	298,883	67,577
Total current liabilities	<u>857,815</u>	<u>517,401</u>
Long-term Liabilities:		
Long-term debt (Note 5)	9,064	-
Deferred income taxes (Note 2)	20,591	5,791
	<u>29,655</u>	<u>5,791</u>
Commitments (Note 7)		
Minority interest (Note 4)	<u>2,151</u>	<u>2,151</u>
Stockholders' Equity (Note 6)		
Common stock, \$.001 par value, 1,500,000,000 shares authorized, 908,000,000 shares 595,953,774 shares issued and outstanding respectively	908,000	5,960
Paid in capital	2,683,445	-
Retained earnings	500,176	155,135
	<u>4,091,621</u>	<u>161,095</u>
	\$ 4,981,242	\$ 686,438
	=====	=====

The accompanying notes are an integral part of the financial statements.

The Software Toolworks, Inc.
Consolidated Statements of Operations
For the Years Ended March 31,

	<u>1988</u>	<u>1987</u>	<u>1986</u>
Sales	\$ 3,793,606	\$ 2,172,536	\$ 515,963
Costs and expenses:			
Cost of sales	1,217,199	655,683	207,583
Selling, general and administrative	<u>1,597,200</u>	<u>1,291,035</u>	<u>308,481</u>
	<u>2,814,399</u>	<u>1,946,718</u>	<u>516,064</u>
Operating income (loss)	979,207	225,818	(101)
Other income (deductions):			
Interest income	40,190	-	-
Interest expense	(9,180)	(5,029)	(892)
Unrealized loss on marketable securities	(50,000)	-	-
Minority interest in net (income) loss	-	(2,151)	-
	<u>(18,990)</u>	<u>(7,180)</u>	<u>(892)</u>
Income (loss) before taxes	960,217	218,638	(993)
Provision for income taxes (Note 2)	<u>366,200</u>	<u>92,758</u>	<u>-</u>
Net income (loss)	<u>\$ 594,017</u> =====	<u>\$ 125,880</u> =====	<u>\$ (993)</u> =====
Per share information:			
Net income (loss) per share	<u>\$.0008</u> =====	<u>\$.0003</u> =====	<u>\$ -</u> =====
Weighted average number of common shares outstanding	<u>730,681,145</u> =====	<u>418,898,119</u> =====	<u>665,387,362</u> =====

The accompanying notes are an integral part of the financial statements.

The Software Toolworks, Inc.
Consolidated Statement of Changes in Stockholders' Equity
For the Years Ended March 31, 1988, 1987, and 1986

	<u>Common Stock</u>		<u>Paid in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balance March 31, 1985	665,387,362	\$ 2,000	\$ -	\$ 77,008	\$ 79,008
Net loss for the year	-	-	-	(993)	(993)
Balance March 31, 1986	665,387,362	2,000	-	76,015	78,015
Repurchase of officers shares	(423,544,900)	(2,040)	-	(46,760)	(48,800)
Acquisition of subsidiary	354,111,312	6,000	-	-	6,000
Net income for the year	-	-	-	125,880	125,880
Balance March 31, 1987	595,953,774	5,960	-	155,135	161,095
Reacquisition and cancellation of stock	(89,088,564)	(1,024)	-	(248,976)	(250,000)
Shares issued for software copyrights	75,254,790	59,400	-	-	59,400
Issuance of common stock to public and others	325,880,000	325,880	3,201,229	-	3,527,109
Par value reclassification	-	517,784	(517,784)	-	-
Net income for the year	-	-	-	594,017	594,017
Balance March 31, 1988	908,000,000	\$ 908,000	\$ 2,683,445	\$ 500,176	\$ 4,091,621
	=====	=====	=====	=====	=====

The accompanying notes are an integral part of the financial statements.

The Software Toolworks, Inc.
Consolidated Statements of Changes in Financial Position
For the Years Ended March 31,

	1988	1987	1986
Financial resources were provided by:			
Operations:			
Net income (loss)	\$ 594,017	\$ 125,880	\$ (993)
Add: charges against operations not affecting working capital:			
Depreciation	42,593	23,168	11,019
Deferred taxes	14,800	5,791	-
Issuance of common shares related to acquisition of subsidiary minority interest		4,850	-
		2,151	-
Total by operations	651,410	161,840	10,026
Issuance of common stock	3,586,509	-	-
Loan proceeds	9,494	-	-
Decrease in other assets	-	-	1,823
	4,247,413	161,840	11,849
Financial resources were applied to:			
Purchase of furniture and equipment	191,099	110,022	3,323
Repurchase of common shares	250,000	47,650	-
Repayment of long term debt	430	-	-
Increase in other assets	382,174	8,797	-
	823,703	166,469	3,323
Increase (decrease) in working capital	\$ 3,423,710	\$ (4,629)	\$ 8,526
Components of changes in working capital:			
Cash	\$ 2,474,524	\$ (16,403)	\$ 13,869
Marketable securities	950,000	-	-
Accounts receivable	187,489	466,317	(6,070)
Inventory	133,700	49,303	(5,709)
Prepaid expenses	18,411	1,468	-
Current portion of long term debt	(2,725)	-	-
Accounts payable	(143,013)	(122,936)	1,377
Accrued expenses	34,335	(293,116)	(4,812)
Due to shareholders	2,295	(2,295)	9,871
Deferred income taxes	-	(19,390)	-
Income taxes payable	(231,306)	(67,577)	-
Increase (decrease) in working capital	\$ 3,423,710	\$ (4,629)	\$ 8,526

The accompanying notes are an integral part of the financial statements.

The Software Toolworks, Inc.
Notes to Consolidated Financial Statements
March 31, 1988

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The company was incorporated in the state of California, in December, 1980, and is in the business of developing and marketing computer software.

Principles of Consolidation

The accompanying financial statements are presented on a consolidated basis with the Company's wholly owned subsidiaries Priority Software Packaging, Inc. (Priority), Software Country (Country) and an 80% interest as general partner, in a California Limited Partnership, Software Golden Oldies Volume #1, LTD. (Oldies). All material intercompany accounts and transactions have been eliminated.

Inventory

Inventory is valued at the lower of cost or market on a first-in, first-out basis, and consists principally of diskettes and packaging materials.

Property and Equipment

Property and equipment are recorded at cost. Depreciation and amortization are computed using the straight line and ACRS methods over the estimated useful lives of from five to seven years.

Income Taxes

The Company uses accelerated methods of depreciation for income tax purposes where applicable, as opposed to the straight line method for book purposes. In addition, the Company is an 80% owner of a partnership with a tax year end different from that of the Company. Deferred taxes, where applicable, are provided to reflect the income tax effects of amounts included for financial statement purposes in different periods than for tax purposes.

Software Development costs

Purchased software: The cost of purchased software to be marketed is amortized using the straight line method over the estimated useful life of the product.

The Software Toolworks, Inc.
Notes to Consolidated Financial Statements
(Continued)

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Software Development Costs (Continued)

Internally developed software: All costs related to the establishment of technological feasibility of software are charged to operations as incurred. Costs incurred after the establishment of technological feasibility are capitalized until the product is available for distribution. These capitalized costs are amortized using the straight line method over the estimated useful lives of the product.

Patents and Rights

Patents and rights are recorded at cost and amortized over an estimated useful life of five years.

Earnings Per Share

Per share amounts are based upon the weighted average number of shares outstanding during the periods presented using the Treasury Stock method. Share amounts have been restated to give effect to the recapitalization of the Company as discussed in Note 6. Per share data is unchanged on a fully diluted basis.

Note 2. INCOME TAXES

Deferred income taxes are provided to reflect the differences resulting from different depreciation methods used for book and tax purposes and other timing differences.

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

	Year Ended March 31.	
	1988	1987
Currently payable	\$ 351,400	\$ 67,577
Deferred	14,800	25,181
	\$ 366,200	\$ 92,758
	=====	=====

The Software Toolworks, Inc.
Notes to Consolidated Financial Statements
(Continued)

Note 2. INCOME TAXES (Continued)

A reconciliation of income taxes computed at statutory rates to the provision for income taxes is as follows:

	Year Ended March 31.	
	1988	1987
Tax computed at statutory rate	37%	46%
State income tax	10	10
Surtax exemption and other	(9)	(14)
	38%	42%
	=====	=====

Note 3. MARKETABLE SECURITIES

Marketable securities at March 31, 1988 consist of 100,000 units of Dean Witter Government Income Trust securities at a cost of \$1,000,000. Carrying value of the securities has been reduced by \$50,000 to reflect the decline in market value at March 31, 1988.

Note 4. MINORITY INTEREST

In October, 1986, the Company acquired an 80% interest in Oldies, a California partnership, engaged in the business of computer software development and marketing as a result of its acquisition of Country. The portion of Oldies held by parties other than the Company and the earnings or loss related thereto are presented as minority interest in the accompanying financial statements. There was no activity by the partnership during the year ended March 31, 1988.

Note 5. LONG-TERM DEBT

Long-term debt consists of the following at March 31, 1988:

8% note payable, secured by automotive equipment, due in monthly installments of \$297, maturing in February, 1992	\$ 11,789
Less: current portion	<div style="border-top: 1px solid black;">2,725</div> <div style="border-top: 1px solid black;">\$ 9,064</div> <div style="border-top: 1px solid black;">=====</div>

The Software Toolworks, Inc.
Notes to Consolidated Financial Statements
(Continued)

Note 6. CAPITAL STOCK

During April, 1986, the Company repurchased and retired 423,544,900 shares of common stock previously held by its founder, for \$48,800 in the form of a promissory note bearing interest at 10% per annum, payable on or before March 31, 1987. This note was repaid during the year ended March 31, 1987.

In conjunction with the acquisition of Country in October, 1986, the Company issued 354,111,312 shares of its common stock to the shareholders of Country (See Note 9).

During the year ended March 31, 1988, the Company repurchased 89,088,564 shares of its common stock for cash aggregating \$250,000.

During the year ended March 31, 1988, the Company issued 75,254,790 shares of its common stock in exchange for copyrights valued at \$59,400.

During February 1988, the Company completed a reorganization agreement with Deseret-Western Venture Capital, Inc. (Deseret), a Utah corporation whose assets consisted principally of cash aggregating \$3,600,000. In conjunction therewith, Deseret issued 583,000,000 shares of its restricted common stock in exchange for all of the issued and outstanding shares of the Company. The accompanying financial statements have been restated to give effect to this transaction which has been accounted for as though it were a recapitalization of the Company and sale by the Company of 325,880,000 shares of common stock (including 110,000,000 restricted shares issued as compensation to parties instrumental in effecting the merger) for \$3,600,000, less expenses associated with the reorganization. All share and per share amounts have been restated to give effect to the reorganization.

At March 31, 1988 the Company has outstanding stock purchase warrants arising from the public offering of Deseret for up to 50,000,000 shares of common stock exercisable at \$0.25 per share. The warrants may be exercised through October 31, 1989 unless extended by the Company.

The Software Toolworks, Inc.
Notes to Consolidated Financial Statements
(Continued)

Note 7. COMMITMENTS AND CONTINGENCIES

Leases

The Company occupies its office and manufacturing facilities under operating leases expiring at various times. Approximate annual minimum rentals provided for by these leases are as follows:

<u>Fiscal Year Ended</u>	<u>Amount</u>
March 31, 1989	\$ 83,100
March 31, 1990	55,800

Rent expense for the years ended March 31, 1988, 1987, and 1986, was \$71,191, \$41,165, and \$10,639 respectively.

Royalties

Royalty expense, related principally to the licensing of computer software to be marketed, amounted to \$244,202, \$131,793 and \$85,143 for the years ended March 31, 1988, 1987, and 1986, respectively. There are no material commitments under agreements which require minimum annual royalties.

Note 8. MAJOR CUSTOMER AND BUSINESS SEGMENTS

Major Customer

During March, 1987, the Company has entered into an agreement with a software vendor for a period of two years which is automatically extended for an additional two years unless terminated by either of the parties. Termination is effected by 30 days written notice by either party and is effective on the renewal date following the date of the notice. The agreement provides the vendor with exclusive rights to distribute all of the software products of the Company in all areas which the vendor chooses, and to obtain the software at a more favorable price than any other customers of the Company.

Sales to this vendor are as follows:

<u>Period Ended</u>	<u>Amount</u>
March 31, 1988	\$2,530,000
March 31, 1987	\$1,649,000
March 31, 1986	\$ -

The Software Toolworks, Inc.
Notes to Consolidated Financial Statements
(Continued)

Note 8. MAJOR CUSTOMER AND BUSINESS SEGMENTS (continued)

Business Segments.

The Company considers its activities to comprise two segments: (1) design and sale of computer software and (2) duplication, shipping and packaging of software products for customers. Summary data for 1988, 1987, and 1986, is as follows:

	<u>Computer Software</u>	<u>Shipping & Packaging</u>
1988: Sales	\$ 2,939,000	\$ 855,000
Operating income	1,402,000	(423,000)
Identifiable assets	4,565,000	416,000
Capital expenditures	51,000	140,000
Depreciation	13,000	30,000
1987: Sales	\$ 2,053,000	\$ 119,000
Operating income	228,000	(3,000)
Identifiable assets	529,000	157,000
Capital expenditures	36,000	74,000
Depreciation	12,000	11,000
1986: Sales	\$ 516,000	\$ -
Operating income	(1,000)	-
Identifiable assets	90,000	-
Capital expenditures	3,000	-
Depreciation	11,000	-

Note 9. ACQUISITIONS

During October, 1986, the Company acquired the assets of Country which consisted principally of an 80% interest as general partner in Oldies, and proprietary rights in a software program known as Chessmaster 2000, in exchange for 354,111,312 shares of its common stock (See Notes 4 and 6). Country is engaged in the business of developing computer software products. This transaction was accounted for as a purchase and the results of operations of Country are consolidated with those of the Company from October, 1986.

The Software Toolworks, Inc.
Notes to Consolidated Financial Statements
(Continued)

Note 9. ACQUISITIONS (continued)

During November, 1986, the Company acquired the net assets of Priority Software Packaging, Inc. (Priority) which consisted principally of equipment, inventory, and receivables less related liabilities, in exchange for \$8,000 in cash. Priority is engaged in the packaging and shipping business. As part of this acquisition the Company entered into consulting agreements with the shareholders of Priority for a period of 5 months ending March 31, 1987. The aggregate compensation for said consulting agreements was \$62,000. This transaction was accounted for as a purchase and the results of operations of Priority are consolidated with those of the Company from November, 1986.

Note 10. RELATED PARTY TRANSACTIONS

During the year ended March 31, 1988, the Company borrowed \$117,000 from certain of its officers for working capital. These advances were repaid prior to March 31, 1988.

During the year ended March 31, 1987, certain officers of the Company were not paid portions of the salaries and bonuses due them. The unpaid balance at March 31, 1987, amounted to approximately \$234,400 and is included in the accompanying financial statements under the caption accrued expenses. The Company accrued bonuses for its officers aggregating \$165,000 for the year ended March 31, 1988, and included this amount in accrued expenses at March 31, 1988.

In addition an officer advanced the Company \$2,295 during the year ended March 31, 1987, which is included in the accompanying financial statements under the caption due to shareholders.

Note 11. COMPUTER SOFTWARE COSTS

Software development costs related to the establishment of technological feasibility of the software are charged to operations as incurred. Costs incurred after the establishment of technological feasibility are capitalized until the product is available for distribution. The capitalized costs are amortized over the estimated useful lives of the products developed. Prior to March 31, 1987, the Company had not expended significant funds to develop software and had obtained its most significant product to be marketed through the acquisition of a subsidiary (see Note 9), therefore no development costs were capitalized prior to this date. During the year ended March 31, 1988, the Company capitalized costs aggregating \$362,193 and amortized \$43,221 of these costs, leaving an unamortized balance of \$318,972 at March 31, 1988.