MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

FISCAL YEAR ENDING AUGUST 31, 1989

The Company completed fiscal year 1989 with revenues of $36.5 million and a net income of $1.1 million. This compares to revenues of $31.7 million and a net income of $256,000 in fiscal year 1988.

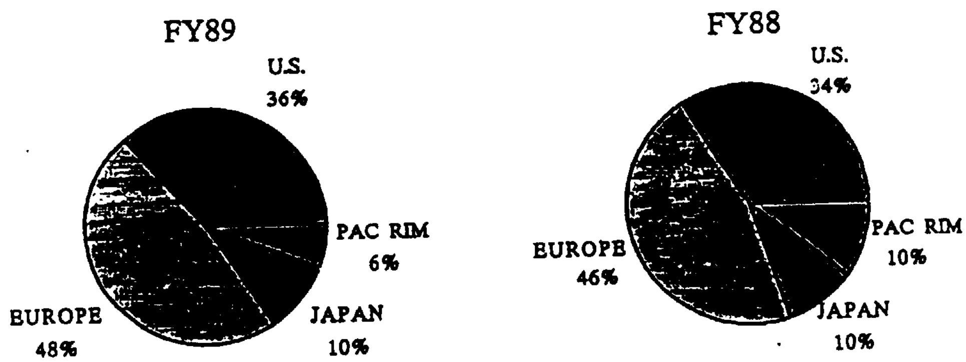
This represents the second consecutive year of growth in revenues since fiscal year 1984 and the second consecutive full year of profitability since fiscal year 1983. The Company achieved 430% the net income of 1988 by increasing revenues by 15% and improving gross margins from 75% to 81% while increasing operating expenses by 23%.

REVENUES

On a geographic basis, revenues increased from 1988 by 24% in the U.S., 19% in Europe and 16% in Japan. Pacific Rim added a contribution of over $2.2 million to 1989 revenues vs $3.3 million in 1988.

REVENUES BY TERRITORY

FY89 VS. FY88



FY89 TOTAL $36.5 MILLION

FY88 TOTAL $31.7 MILLION

U.S. OEM business grew by over 46% from the prior year, contributing 51% of U.S. 1989 revenues compared to 44% in 1988. This reflects the rebuilding of the U.S. OEM sales force, the acceptance of new releases of Concurrent DOS XM and Concurrent DOS 386, the very favorable acceptance of DR DOS, and the increasing acceptance of FlexOS 286 and 386, especially by electronic point-of-sale terminal manufacturers.

From a channel and geographic point of view, this represents the most significant growth trend for the Company in 1989 and for the near future. It was U.S. OEM business which suffered the most significant declines in the period of 1984 to 1987 and now offers significant opportunities for growth.

U.S. retail revenues grew 8% from 1988 and contributed 49% of total U.S. revenues in 1989. This compares to the 1988 growth rate of 4%. Graphics retail revenues actually grew by 18% year to year reflecting the introduction of Artline, a graphics illustration and drawing program, and very strong growth of Presentation Team, an integrated drawing, graphing and charting program. Operating system retail revenues declined by 28% reflecting reduced retail sales of Concurrent DOS XM and a shift of VAR sales from retail to OEM contracts. The Company plans to release new graphics products in FY90 which it believes will provide strong future growth in retail sales.

During the year, the Company increased its operations in the Pacific Rim targeting PC manufacturers in Taiwan, Singapore, Hong Kong and Korea as licensees of DR DOS, Concurrent DOS and the graphics products. The Company has licensed over 1 million copies of DR DOS to manufacturers in this region. During the year, the Company introduced a further enhanced release of DR DOS which significantly out performs preceding versions. The Company expects this region to grow at over 30% in 1990.

European revenues grew 44% and 5% over 1988 for OEM and retail channels respectively. Retail revenues, exclusive of a mail order operation, contributed 55% of Europe's core business in 1989. This is primarily due to the continued growth and penetration of the GEM graphics applications line in several countries with particular strength in Germany.

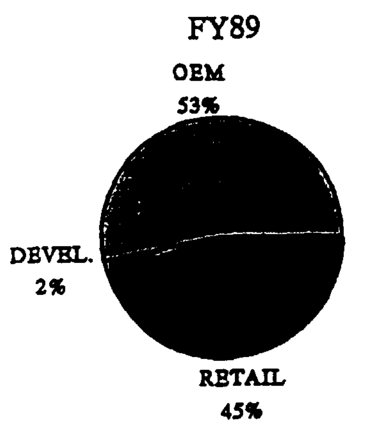
European OEM revenues in 1989 exceeded 1988 in general purpose operating systems by $2.7 million primarily because of continued Concurrent DOS XM and Concurrent DOS 386 sales as well as DR DOS design wins. FlexOS OEM licenses exceeded 1988 by $1.5 million as European OEMs such as Siemens, Thorn EMI and others signed licenses to utilize the real-time capabilities of the FlexOS 286 and 386 operating systems and the multi-tasking graphics provided by X/GEM, the Company's multi-tasking graphics environment for FlexOS.

Overall European 1989 revenues include $600,000 of sales of various third party products through a mail order joint venture operation. This compares with revenues of $1.3 million from this operation in 1988. In 1989, the Company disposed of this business given its ancillary nature and marginal profitability.

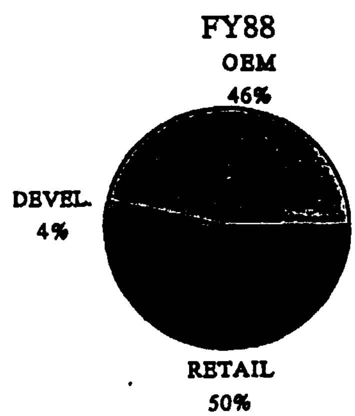
Japan revenues increased 16% from the prior year versus a 24% decline in the prior year. This was due to several large OEM contracts for FlexOS and Concurrent DOS which were signed in 1989, including TEC (Tokoyo Electric Company) and FANUC, both of whom began shipping new product lines based on FlexOS. A new management team was put in place in the Company's Japanese subsidiary during the year. The Company is confident that this new team will foster relationships and new OEM business in 1990 and expects over 50% growth in Japanese revenues in 1990.

REVENUES BY CHANNEL

FY89 VS. FY88



FY89 TOTAL $36.5 MILLION



FY88 TOTAL $31.7 MILLION

On a product line basis, graphics revenues declined 4% from 1988 to contribute 43% of total 1989 revenues (50% in 1988). The GEM applications line continued to gain acceptance through retail channels but declined significantly (49%) through OEM channels. 16% of 1989 graphics revenues were derived from OEM licenses compared to 30% in 1988. The Company expects OEM channel revenues for graphics to remain flat in 1990 compared to 1989.

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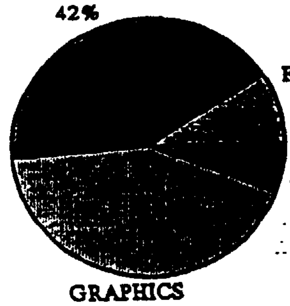
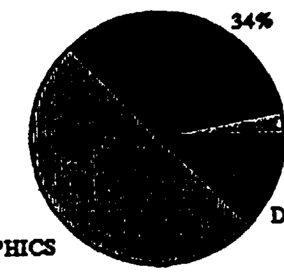
REVENUES BY PRODUCT LINE

FY89 VS. FY88



FY89 TOTAL $36.5 MILLION



FY88 TOTAL $31.7 MILLION

General purpose operating systems (GPOS) revenues grew 43% from 1988. This included significant growth through OEM channels (62% over 1988) attributable primarily to DR DOS. The Company expects a minimum growth rate of 24% in 1990 as new functionality is provided with DR DOS and it gains even more widespread OEM acceptance worldwide. Retail GPOS revenues decreased $700,000 in 1989 from 1988 due to reduced retail sales of Concurrent DOS XM and a shift of VAR revenues from retail to OEM.

FlexOS revenues increased 350% over 1988, as FlexOS was enhanced and the Company shipped the initial release of X/GEM, the Company's multi-tasking graphics environment for FlexOS. In prior years, the FlexOS business had been slower to develop than expected but in 1988 the Company obtained several important design wins from major customers, particularly in the point-of-sale and process control markets which produced revenue in 1989. As the Company attained a near dominant position in the electronic point-of-sale terminal market during 1989, its sales to that maket began to accelerate. New OEM customers as well as renewals of existing licenses allow the Company to forecast over 200% growth in FlexOS revenue in 1990.

Revenues from development contracts declined by approximately 50% from the prior year. The Company has consciously reduced the level of this activity to channel more resources to the development of new strategic products.

The Company also generates revenues from ongoing royalties, sales of old products such as languages, and packaging for OEMs.

COST OF GOODS SOLD

Cost of Goods Sold decreased on a year to year basis as a percentage of revenue from 25% to 19%. This was due to a higher percentage of OEM sales to total sales compared to the prior year as well as increased efficiency in its manufacturing operations. The Company expects this trend to continue as OEM sales expand faster than retail in 1990.

OPERATING EXPENSES

Operating expenses were up approximately 23% from 1988. During 1988 the State of California issued a new regulation regarding sales taxation of OEM royalties which resulted in a reversal of a previously accrued sales tax liability of $907,000. Without the benefit of this reversal, operating expenses would have increased by 18% in 1989 over 1988.

Spending increases were applied to expanding the European Development Center to allow for local graphics application implementation as well as further development of DR DOS and Concurrent DOS 386. In addition, the Company increased its U.S. graphics application development expenditures. During 1989, the Company hired senior executives as managers for its FlexOS and graphics business units as well as Corporate Marketing. Restructuring its Japanese operation, the Company added senior staff in engineering, marketing and sales. Sales and merchandising expenditures were increased in both the U.S. and Europe.

CAPITAL TRANSACTIONS

During the year the Company sold a total of 3,569,668 shares of Series D Preferred Stock for $2,999,310 net of issuance costs and interest on a $750,000 bridge loan that was converted into Series D Preferred Stock as part of this transaction.

FISCAL YEAR 1989

In fiscal year 1989 the Company is projecting revenues of $43 million with an operating profit of $4.2 million. Growth is expected in all major geographic territories with the most significant percentage growth occurring in Japan and the Pacific Rim as additional sales, marketing and technical resources are put in place.

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