



**CD DIAGNOSTICS, INC.
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

CD DIAGNOSTICS, INC. AND SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
CD Diagnostics, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of CD Diagnostics, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CD Diagnostics, Inc. and Subsidiary as of December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the years then ended in accordance with accounting principles generally accepted in the United States of America.



Philadelphia, Pennsylvania
April 29, 2016

CD DIAGNOSTICS, INC. AND SUBSIDIARY

Consolidated Balance Sheets

	December 31	
	2015	2014
ASSETS		
Current assets:		
Cash	\$ 1,652,677	\$ 1,007,195
Accounts receivable	1,296,800	832,148
Prepaid expenses and other current assets	<u>160,687</u>	<u>103,576</u>
Total current assets	3,110,164	1,942,919
Property and equipment, net	961,731	1,072,547
Other assets:		
Goodwill, net	1,724,194	1,970,507
Intangible assets, net	<u>1,602,778</u>	<u>1,649,945</u>
	<u>\$ 7,398,867</u>	<u>\$ 6,635,918</u>
LIABILITIES		
Current liabilities:		
Line-of-credit	\$ 475,000	\$ 772,354
Accounts payable	357,822	212,135
Accrued expenses	109,482	111,619
Deferred rent	225,856	222,339
Income tax payable	<u>68,208</u>	<u>-</u>
Total current liabilities	1,236,368	1,318,447
Long-term liabilities:		
Grant obligation	500,000	500,000
Deferred tax liability	<u>337,529</u>	<u>342,240</u>
Total long-term liabilities	837,529	842,240
Total liabilities	2,073,897	2,160,687
Commitments and contingencies		
Series B-1 preferred stock, at redemption value, \$0.0001 par value:		
303,278 shares issued and outstanding (liquidation preference \$2,917,534)	-	2,238,616
Series B-2 preferred stock, at redemption value, \$0.0001 par value:		
132,704 shares issued and outstanding (liquidation preference \$1,658,800)	<u>-</u>	<u>979,584</u>
Total redeemable preferred stock	-	3,218,200
STOCKHOLDERS' EQUITY		
Series A preferred stock, \$0.0001 par value:		
620,795 shares authorized, 615,597 shares issued and outstanding (liquidation preference \$8,274,134)	62	62
Series B-1 preferred stock, \$0.0001 par value:		
303,278 shares issued and outstanding (liquidation preference \$2,917,534)	30	-
Series B-2 preferred stock, \$0.0001 par value:		
132,704 shares issued and outstanding (liquidation preference \$1,658,800)	13	-
Common stock, \$0.0001 par value:		
4,000,000 shares authorized, 996,891 and 943,791 shares issued and outstanding as of December 31, 2015 and 2014, respectively	99	94
Additional paid-in capital	9,621,755	6,176,201
Accumulated deficit	<u>(5,078,604)</u>	<u>(5,760,490)</u>
Total controlling interest	4,543,355	415,867
Noncontrolling interest	<u>781,615</u>	<u>841,164</u>
Total stockholders' equity	<u>5,324,970</u>	<u>1,257,031</u>
	<u>\$ 7,398,867</u>	<u>\$ 6,635,918</u>

See notes to consolidated financial statements

CD DIAGNOSTICS, INC. AND SUBSIDIARY

Consolidated Statements of Operations

	Year Ended December 31	
	2015	2014
Revenue, net:		
Corporate partnership	\$ 5,100,000	\$ 2,429,891
Product revenue	418,602	63,042
Patient, net of refunds	6,015,791	4,819,291
	<u>11,534,393</u>	<u>7,312,224</u>
Cost of revenue	<u>3,510,860</u>	<u>2,801,221</u>
Gross profit	8,023,533	4,511,003
Selling, general and administrative expenses	<u>7,284,961</u>	<u>6,494,270</u>
Income (loss) from operations	<u>738,572</u>	<u>(1,983,267)</u>
Other income (expense):		
Interest expense, net	(23,292)	(7,446)
Other income	-	3,804
	<u>(23,292)</u>	<u>(3,642)</u>
Net income (loss) before income tax provision (benefit)	715,280	(1,986,909)
Income tax provision (benefit)	<u>92,943</u>	<u>(164,426)</u>
Net income (loss)	622,337	(1,822,483)
Net loss attributable to noncontrolling interest	<u>(59,549)</u>	<u>(12,356)</u>
Net income (loss) attributable to controlling interest	<u>\$ 681,886</u>	<u>\$ (1,810,127)</u>

CD DIAGNOSTICS, INC. AND SUBSIDIARY

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2015 and 2014

	Controlling interest												Noncontrolling Interest	Total
	Series A Preferred Stock		Series B-1 Preferred Stock		Series B-2 Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Stockholders' Equity			
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount						
Balance at January 1, 2014	615,597	\$ 62	-	\$ -	-	\$ -	892,922	\$ 90	\$ 5,938,098	\$ (3,950,363)	\$ 1,987,887	\$ 853,520	\$ 2,841,407	
Exercise of stock options	-	-	-	-	-	-	2,669	-	5,658	-	5,658	-	5,658	
Stock-based compensation	-	-	-	-	-	-	48,200	4	195,268	-	195,272	-	195,272	
Warrants issued in connection with facility lease	-	-	-	-	-	-	-	-	37,177	-	37,177	-	37,177	
Net loss	-	-	-	-	-	-	-	-	-	(1,810,127)	(1,810,127)	(12,356)	(1,822,483)	
Balance at December 31, 2014	615,597	62	-	-	-	-	943,791	94	6,176,201	(5,760,490)	415,867	841,164	1,257,031	
Reclassification of preferred stock upon expiration of redemption feature	-	-	303,278	30	132,704	13	-	-	3,218,157	-	3,218,200	-	3,218,200	
Stock-based compensation	-	-	-	-	-	-	53,100	5	227,397	-	227,402	-	227,402	
Net income (loss)	-	-	-	-	-	-	-	-	-	681,886	681,886	(59,549)	622,337	
Balance at December 31, 2015	615,597	\$ 62	303,278	\$ 30	132,704	\$ 13	996,891	\$ 99	\$ 9,621,755	\$ (5,078,604)	\$ 4,543,355	\$ 781,615	\$ 5,324,970	

CD DIAGNOSTICS, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2015	2014
Cash flows from operating activities:		
Net income (loss)	\$ 622,337	\$ (1,822,483)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	482,269	450,693
Stock-based compensation	227,402	195,272
Gain on disposal of property and equipment	-	(3,804)
Noncash rent expense	-	37,177
Deferred income taxes	(4,711)	(1,941)
Increase in assets:		
Accounts receivable	(464,652)	(276,871)
Prepaid expenses and other current assets	(57,111)	(3,876)
Increase (decrease) in liabilities:		
Accounts payable	145,687	(12,907)
Accrued expenses and other current liabilities	1,380	163,598
Income tax payable	68,208	-
Net cash provided by (used in) operating activities	<u>1,020,809</u>	<u>(1,275,142)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(77,973)	(625,764)
Proceeds from disposal of property and equipment	-	5,000
Net cash used in investing activities	<u>(77,973)</u>	<u>(620,764)</u>
Cash flows from financing activities:		
(Repayments) borrowings on line-of-credit, net	(297,354)	651,536
Proceeds from grant advance	-	250,000
Proceeds from the exercise of stock options	-	5,658
Payments on note payable	-	(2,736)
Net cash (used in) provided by financing activities	<u>(297,354)</u>	<u>904,458</u>
Net increase (decrease) in cash	645,482	(991,448)
Cash at beginning of year	<u>1,007,195</u>	<u>1,998,643</u>
Cash at end of year	<u>\$ 1,652,677</u>	<u>\$ 1,007,195</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ 23,747	\$ 7,976
Income taxes	29,446	7,448

CD DIAGNOSTICS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements December 31, 2015 and 2014

NOTE A - NATURE OF OPERATIONS AND BASIS OF PRESENTATION

[1] Nature of operations:

CD Diagnostics, Inc. ("CD") was formed on November 7, 2008 initially as a limited liability company, CD Diagnostics LLC. On December 30, 2011, CD converted from a limited liability company to a C corporation.

CD Diagnostics is currently focused on providing immunoassay based analytical tools that enable informed clinical decisions to improve patient outcomes, primarily in the areas of musculoskeletal health and infectious diseases.

Effective August 31, 2012, CD completed the acquisition of 80% of the stock of Citrano Medical Laboratories, Inc. ("Citrano"), accounted for as a business combination. Citrano was a family owned business that provides comprehensive clinical laboratory testing to local physicians, clinics and long-term care facilities in the Baltimore/Washington metropolitan area.

CD and Citrano are collectively referred to as the "Company" herein.

[2] Basis of presentation:

The accompanying consolidated financial statements as of and for the years ended December 31, 2015 and 2014 include the accounts of CD and Citrano. All significant intercompany accounts and transactions are eliminated in consolidation.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Use of estimates:

The presentation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. Significant items subject to such estimates and assumptions include the valuation of equity-based awards, deferred tax valuation allowance, the estimated lives of property, equipment and intangible assets, and the fair value of intangible assets acquired in the business combination. Actual results could differ from those estimates.

[2] Accounts receivable:

Accounts receivable is stated at net realizable value. The Company extends credit to its customers in the normal course of business. Bad debts are provided for on the allowance method based on management's evaluation of outstanding accounts receivable. As of December 31, 2015 and 2014, there was no such allowance considered necessary.

[3] Concentrations:

The Company maintains cash balances with a major financial institution. Accounts at this institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. The Company occasionally maintains cash balances in excess of the FDIC insured limit.

The Company had revenue from one major customer accounting for all of its corporate partnership revenue in the years ended December 31, 2015 and 2014. See Note L for subsequent event related to this customer.

CD DIAGNOSTICS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements December 31, 2015 and 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[4] Property and equipment and leasehold improvements:

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets.

Leasehold improvements are amortized using the straight-line method over the shorter of the term of the lease or the estimated useful lives of the assets. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in the consolidated statements of operations. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

[5] Impairment of long-lived assets:

Long-lived assets, such as property and equipment, and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, then an impairment charge is recognized for the amount by which the carrying value of the asset exceeds the fair value of the asset. There have been no such impairments through December 31, 2015.

Indefinite-lived intangible assets are not amortized, but are subject to periodic testing for impairment. The test for impairment is conducted annually, or more frequently if events occur or circumstances change indicating that the fair value may be below the carrying amounts. The Company determined that no such events occurred through December 31, 2015 that would indicate that the fair value of the indefinite-lived intangible assets may be below the respective carrying amounts.

[6] Goodwill:

The Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-02, *Intangibles – Goodwill and Other (Topic 350)*, which includes alternative accounting guidance developed by the Private Company Council that permits private companies to elect to amortize goodwill and to use a simpler impairment test at either the entity level or the reporting unit level. The Company has elected to amortize its goodwill on a straight-line basis over ten years and to test goodwill for impairment at the reporting unit level. Goodwill is only tested for impairment when a triggering event occurs that indicates that the fair value of the reporting unit may be less than its carrying amount. There is no requirement to test goodwill for impairment on an annual basis. Any impairment would be recognized for the difference between the fair value of the reporting unit and its carrying amount. The Company has determined that it has two reporting units; CD and Citrano. The goodwill reflected on the accompanying consolidated balance sheets relates to the Citrano reporting unit, and the Company has determined that no triggering events requiring testing for impairment have occurred through December 31, 2015.

[7] Research and development costs:

Research and development costs are charged to expense as incurred. Upfront and milestone payments made to third parties who perform research and development services on the Company's behalf will be expensed as services are rendered. Costs incurred in obtaining technology licenses are charged to research and development expense if the technology licensed has not reached technological feasibility and has no alternative future use.

CD DIAGNOSTICS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements December 31, 2015 and 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[8] Income taxes:

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded to the extent it is more likely than not that some portion or all of the deferred tax asset will not be realized.

The Company evaluates uncertain income tax positions in accordance with Accounting Standards Codification ("ASC") 740-10. This guidance prescribes a minimum probability threshold that an uncertain tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon effective settlement with a tax authority that has full knowledge of all relevant information. There are no liabilities recorded for uncertain tax positions as of December 31, 2015 or 2014. The Company recognizes accrued interest and penalties associated with uncertain tax positions, if any, as part of the income tax provision. There was no interest and penalties recorded for the years ended December 31, 2015 and 2014 in relation to uncertain tax positions. The open tax years for the Company are 2012 through 2015 and are subject to examination by the Internal Revenue Service and other various taxing authorities, generally for three years after tax returns are filed. However any adjustments related to 2012 and prior from the taxing authorities would be a liability of the stockholders of Citrano or the members of CD, since these companies were pass-through entities at that time.

[9] Revenue recognition:

The Company recognizes revenue when the following four criteria have been met: (i) persuasive evidence that an arrangement exists, (ii) the product has been shipped or the service has been performed and the Company has no significant remaining obligation, (iii) the seller's price to the buyer is fixed or determinable and (iv) collectability is reasonably assured.

Patient revenues are recognized on the accrual basis at the time the services are provided. Services are provided to certain patients covered by various third-party payer programs including various managed care organizations, as well as the Medicare program. Billings for services under third-party payer programs are included in revenue net of allowances for contractual discounts and allowances for differences between the amounts billed and estimated program payment amounts. Adjustments to the estimated payment amounts based on final settlement with the programs are recorded upon settlement as an adjustment to revenue.

The Company recognizes product revenue when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is reasonably assured, persuasive evidence of an arrangement exists and the sales price is fixed or determinable.

CD DIAGNOSTICS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements December 31, 2015 and 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[9] Revenue recognition (continued):

The Company analyzes multiple-element arrangements related to corporate partnerships based on the guidance in ASC 605-25, *Revenue Recognition — Multiple-Element Arrangements*. Pursuant to this guidance, the Company evaluates multiple-element arrangements to determine (1) the deliverables included in the arrangement and (2) whether the individual deliverables represent separate units of accounting or must be accounted for as a combined unit of accounting. This evaluation involves subjective determinations and requires management to make judgments about the individual deliverables and whether such deliverables are separable from the other aspects of the contractual relationship. Deliverables are considered separate units of accounting provided that the delivered item has value to the customer on a standalone basis and, if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item is considered probable and substantially in the control of the Company. In assessing whether an item has standalone value, the Company considers factors such as the research, manufacturing and commercialization capabilities of the collaboration partner and the availability of the associated expertise in the general marketplace. In addition, the Company considers whether the collaboration partner can use the other deliverables for their intended purpose without the receipt of the remaining elements, whether the value of the deliverable is dependent on the undelivered items and whether there are other vendors that can provide the undelivered elements.

Arrangement consideration that is fixed or determinable is allocated among the separate units of accounting using the relative selling price method. Then, the applicable revenue recognition criteria in ASC 605 are applied to each of the separate units of accounting in determining the appropriate period and pattern of recognition. The Company determines the selling price of a unit of accounting following the hierarchy of evidence prescribed by ASC 605-25. Accordingly, the Company determines the estimated selling price for units of accounting within each arrangement using vendor-specific objective evidence (“VSOE”) of selling price, if available; third-party evidence (“TPE”) of selling price, if VSOE is not available; or best estimate of selling price (“BESP”), if neither VSOE nor TPE is available. The Company typically uses BESP to estimate the selling price as it generally does not have VSOE or TPE of selling price for its units of accounting. Determining the BESP for a unit of accounting requires significant judgment. In developing the BESP for a unit of accounting, the Company considers applicable market conditions and relevant entity-specific factors, including factors that were contemplated in negotiating the agreement with the customer and estimated costs. The Company validates the BESP for units of accounting by evaluating whether changes in the key assumptions used to determine the BESP will have a significant effect on the allocation of arrangement consideration between multiple units of accounting.

The Company recognizes arrangement consideration allocated to each unit of accounting when all of the revenue recognition criteria in ASC 605 are satisfied for that particular unit of accounting. The Company will recognize as revenue arrangement consideration attributed to licenses that have standalone value relative to the other deliverables to be provided in an arrangement upon delivery. The Company will recognize as revenue arrangement consideration attributed to licenses that do not have standalone value relative to the other deliverables to be provided in an arrangement over the Company’s estimated performance period, as the arrangement would be accounted for as a single unit of accounting.

CD DIAGNOSTICS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements December 31, 2015 and 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[9] Revenue recognition (continued):

At the inception of an arrangement that includes milestone payments, the Company evaluates whether each milestone is substantive and at risk to both parties on the basis of the contingent nature of the milestone. This evaluation includes an assessment of whether: (i) the consideration is commensurate with either the Company's performance to achieve the milestone or the enhancement of the value of the delivered item(s) as a result of a specific outcome resulting from the Company's performance to achieve the milestone, (ii) the consideration relates solely to past performance, and (iii) the consideration is reasonable relative to all of the deliverables and payment terms within the arrangement. The Company evaluates factors such as the scientific, clinical, regulatory, commercial and other risks that must be overcome to achieve the respective milestone and the level of effort and investment required to achieve the respective milestone in making this assessment. There is considerable judgment involved in determining whether a milestone satisfies all of the criteria required to conclude that a milestone is substantive. Accordingly, pursuant to the guidance of ASC 605-28, *Revenue Recognition—Milestone Method*, revenue from milestone payments will be recognized in its entirety upon successful accomplishment of the milestone, assuming all other revenue recognition criteria are met.

[10] Stock-based compensation:

The Company accounts for stock-based compensation to employees and nonemployees at fair value in accordance with the provisions of FASB ASC 718, *Compensation - Stock Compensation*, which requires that compensation costs relating to share-based payment transactions be recognized in financial statements based on the fair value for all awards granted as well as for existing awards for which the requisite service has not been rendered.

[11] Fair value of financial instruments:

The carrying amounts reported in the consolidated balance sheets for cash, accounts receivable, accounts payable and accrued expenses approximate their fair value based on the short-term maturity of these instruments. The fair value of the line-of-credit is based on borrowing rates that are available to the Company for loans with similar terms, collateral and maturity. The estimated fair value of the line-of-credit approximates the carrying value.

The Company's nonfinancial assets include property and equipment, intangible assets and goodwill. These assets are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment. No related impairment losses have been recorded through December 31, 2015.

[12] Accounting standards updates:

On May 28, 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard was effective for fiscal years beginning after December 15, 2017, with early adoption permitted one year earlier. The standard permits the use of either the retrospective or cumulative effect transition method. FASB has issued ASU 2015-14, *Revenue from Contracts with Customers*, that defers the effective date of ASU 2014-09 by one year. The Company has not yet selected a transition method nor has it determined the effect of the standard on its consolidated financial statements and related disclosures.

CD DIAGNOSTICS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements December 31, 2015 and 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[12] Accounting standards updates (continued):

In August 2014, FASB issued ASU 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. ASU 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Specifically, ASU 2014-15 provides a definition of the term substantial doubt and requires an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). It also requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans and requires an express statement and other disclosures when substantial doubt is not alleviated. The new standard will be effective for reporting periods beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the impact of the adoption of ASU 2014-15 on its consolidated financial statements and disclosures.

In April 2015, FASB issued ASU 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This ASU requires retrospective adoption and will be effective for fiscal years beginning after December 15, 2015 and for interim periods within fiscal years beginning after December 15, 2016. The Company does not expect the adoption of this guidance will have a material impact on its consolidated financial statements.

In February 2016, FASB issued its new lease accounting guidance in ASU 2016-02, *Leases (Topic 842)*. The new ASU will require lessees to recognize for all leases (with terms of more than 12 months) at the commencement date the following: a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The new lease guidance also simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing. ASU 2016-02 will be effective for nonpublic businesses for fiscal years beginning after December 15, 2019, including interim periods within fiscal years beginning after December 15, 2020. Early application is permitted. The Company is currently evaluating the effect that this new guidance will have on its consolidated financial statements and related disclosures.

CD DIAGNOSTICS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements December 31, 2015 and 2014

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2015 and 2014 consisted of the following:

	<u>December 31</u>		<u>Estimated Useful Life</u>
	<u>2015</u>	<u>2014</u>	
Furniture and fixtures	\$ 55,839	\$ 46,425	7 years
Computer equipment	143,340	129,023	5 years
Vehicles	2,472	2,472	7 years
Lab equipment	540,014	495,451	7 years
Leasehold improvements	681,076	671,397	(*)
	<u>1,422,741</u>	<u>1,344,768</u>	
Less accumulated depreciation and amortization	<u>(461,010)</u>	<u>(272,221)</u>	
Property and equipment, net	<u>\$ 961,731</u>	<u>\$ 1,072,547</u>	

(*) Shorter of the useful life or lease term

Related depreciation and amortization for the years ended December 31, 2015 and 2014 was approximately \$189,000 and \$158,000, respectively.

NOTE D - INTANGIBLE ASSETS AND GOODWILL

[1] Intangible assets:

The cost basis and accumulated amortization for intangible assets as of December 31, 2015 and 2014 are as follows:

	<u>December 31</u>		<u>Estimated Useful Life</u>
	<u>2015</u>	<u>2014</u>	
Customer relationships - nursing homes	\$ 810,000	\$ 810,000	20 Years
Customer relationships - physicians	100,000	100,000	15 Years
Trade name	650,000	650,000	Indefinite life
CLIA certificate	200,000	200,000	Indefinite life
	<u>1,760,000</u>	<u>1,760,000</u>	
Less accumulated amortization	<u>(157,222)</u>	<u>(110,055)</u>	
Intangible assets, net	<u>\$ 1,602,778</u>	<u>\$ 1,649,945</u>	

CD DIAGNOSTICS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements December 31, 2015 and 2014

NOTE D - INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

[2] Goodwill:

The cost basis and accumulated amortization for goodwill as of December 31, 2015 and 2014 are as follows:

	December 31	
	2015	2014
Goodwill	\$ 2,463,134	\$ 2,463,134
Accumulated amortization	<u>(738,940)</u>	<u>(492,627)</u>
Goodwill, net	<u>\$ 1,724,194</u>	<u>\$ 1,970,507</u>

Amortization related to intangible assets and goodwill was approximately \$293,000 for each of the years ended December 31, 2015 and 2014.

As of December 31, 2015, future amortization on definite-lived intangibles and goodwill for the succeeding five years is as follows:

Year Ending December 31	
2016	\$ 293,000
2017	293,000
2018	293,000
2019	293,000
2020	293,000

NOTE E - GRANT OBLIGATION

During May 2012, the Company entered into an agreement with the Delaware Economic Development Authority ("DEDA"). Certain terms of this agreement were amended in November 2013. Under the agreement and as amended, DEDA is to advance the Company a total of \$500,000, comprised of two equal installments referred to as an "Execution Draw" and a "New Full-Time Employee Draw." The first installment, the Execution Draw, was contingent upon the Company relocating to New Castle, Delaware. In September 2013, the Company entered into an office lease in New Castle and has since moved its operations to this location. The Company received the first \$250,000 installment in November 2013. The second installment, the New Full-Time Employee Draw, is contingent upon the Company achieving certain levels of full-time employment, which are measured annually through October 1, 2018. In the event the required levels of employment are not satisfied, the grant is refundable at a rate of \$3,000 per person below the employment level specified in the agreement. In May 2014, the Company received \$250,000 from DEDA for the second installment of the grant. The funds have been recorded as a liability in the consolidated balance sheets as of December 31, 2015 and 2014.

CD DIAGNOSTICS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements December 31, 2015 and 2014

NOTE F - STOCKHOLDERS' EQUITY

[1] Warrants:

A summary of changes in warrants for the years ended December 31, 2015 and 2014 is as follows:

	<u>Common Stock</u>	<u>Weighted Average Exercise Price</u>
Warrants outstanding at January 1, 2014	31,782	\$ 0.001
Granted	<u>2,478</u>	0.001
Warrants outstanding at December 31, 2014	<u>34,260</u>	0.001
Warrants outstanding at December 31, 2015	<u>34,260</u>	<u>\$ 0.001</u>

In connection with a lease agreement (see Note H), during 2011 the Company previously issued warrants to purchase common stock at an exercise price of \$0.001 per unit which is exercisable through June 30, 2016. The Company extended this lease in January 2014 and in accordance with the lease agreement, a warrant to purchase an additional 2,478 shares of common stock with an exercise price of \$0.0009334 was issued. The Company recorded this warrant at the fair value of the leased space of approximately \$37,000, and recognized the amount as rent expense ratably over the term of the amended lease through March 15, 2014 and no longer leases the premises under this lease. The Company recorded noncash rent expense of approximately \$37,000 for the year ended December 31, 2014. Such amount is included in selling, general and administrative expenses in the accompanying consolidated statements of operations for the year then ended.

[2] Preferred stock:

The Company has authorized 2,000,000 shares of preferred stock, par value \$0.0001, of which 620,795 shares have been designated as Series A preferred stock ("Series A"), 303,278 shares have been designated as Series B-1 preferred stock ("Series B-1") and 132,704 shares have been designated as Series B-2 preferred stock ("Series B-2"). The Series B-1 and B-2 preferred stock was issued in conjunction with the acquisition of Citrano and classified as mezzanine equity until the redemption option expired on August 31, 2015, the third anniversary date of the Citrano acquisition.

a. Voting rights:

On any matter presented to the stockholders of the Company for their action or consideration at any meeting of stockholders of the Company (or by written consent of stockholders in lieu of meeting), each holder of outstanding shares of preferred stock shall be entitled to cast the number of votes equal to the number of whole shares of common stock into which the shares of preferred stock held by such holder are convertible as of the record date for determining stockholders entitled to vote on such matter. Except as provided by law or by the other provisions of the Certificate of Incorporation, holders of preferred stock shall vote together with the holders of common stock as a single class.

The holders of record of the shares of Series A, exclusively and as a separate class, shall be entitled to elect up to three (3) directors of the Company and the holders of record of the shares of common stock, exclusively and as a separate class, shall be entitled to elect one (1) director of the Company.

CD DIAGNOSTICS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements December 31, 2015 and 2014

NOTE F - STOCKHOLDERS' EQUITY (CONTINUED)

[2] Preferred stock (continued):

b. Liquidation

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, the holders of shares of Series A then outstanding shall be entitled to be paid out of assets available for distribution to Company stockholders, on a par with the amounts that the holders of Series B-1 and Series B-2 shall be entitled to receive, and before any payment shall be made to the holders of common stock, an amount per share equal to the greater of (i) 1.5 times the Series A Original Issue Price (\$9.62), plus any dividends declared but unpaid, or (ii) such amount per share as would have been payable had all shares of Series A been converted to common stock immediately prior to such liquidation, dissolution, winding up or deemed liquidation event.

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, the holders of shares of Series B-1 then outstanding shall be entitled to be paid out of assets available for distribution to Company stockholders, on a par with the amounts that the holders of Series A and Series B-2 shall be entitled to receive, and before any payment shall be made to the holders of common stock, an amount per share equal to the greater of (i) the Series B-1 Original Issue Price (\$9.62), plus any dividends declared but unpaid, or (ii) such amount per share as would have been payable had all shares of Series B-1 been converted to common stock immediately prior to such liquidation, dissolution, winding up or deemed liquidation event.

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, the holders of shares of Series B-2 then outstanding shall be entitled to be paid out of assets available for distribution to Company stockholders, on a par with the amounts that the holders of Series A and Series B-1 shall be entitled to receive, and before any payment shall be made to the holders of common stock, an amount per share equal to the greater of (i) the Series B-2 Original Issue Price (\$12.50), plus any dividends declared but unpaid, or (ii) such amount per share as would have been payable had all shares of Series B-2 been converted to common stock immediately prior to such liquidation, dissolution, winding up or deemed liquidation event.

After payment of all the preferential amounts, the remaining assets available for distribution shall be distributed among the holders of the shares of common stock, pro rata, based on the number of shares held by each holder.

c. Dividends:

The holders of outstanding shares of Series A shall be entitled to receive dividends, when, as and if declared by the Board of Directors, out of any assets at the time legally available therefor, at the rate per annum of 8% payable in preference and priority to any declaration or payment of any distribution on the Series B-1, Series B-2 or common stock. The right to receive dividends on shares of Series A shall not be cumulative, and no rights to dividends shall accrue to holders of Series A by reason of the fact that dividends on said shares are not declared and paid.

CD DIAGNOSTICS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements December 31, 2015 and 2014

NOTE F - STOCKHOLDERS' EQUITY (CONTINUED)

[2] Preferred stock (continued):

d. Conversion:

Each share of Series A, Series B-1 and Series B-2 shall be convertible, at the option of the holder, at any time without the payment of additional consideration, into such number of fully paid and nonassessable shares of common stock as is determined by dividing the Series A, Series B-1 and Series B-2 Original Issue Prices by the Series A, Series B-1 and Series B-2 conversion prices, respectively, in effect at the time of conversion. The Series A, Series B-1 and Series B-2 conversion prices shall initially be equal to the Series A, Series B-1 and Series B-2 Original Issue Prices, respectively. No fractional shares of common stock shall be issued upon conversion of preferred stock. In lieu of any fractional shares, the Company shall pay cash equal to such fractional shares multiplied by the fair market value of a share of common stock as determined in good faith by the Board of Directors. The Company shall at all times when the preferred stock shall be outstanding, reserve and keep available out of its authorized but unissued capital stock, for the purpose of effecting the conversion of preferred stock, such number of duly authorized shares of common stock. The Company shall pay any and all issue and other similar taxes that may be payable in respect to issuance or delivery of shares of common stock upon conversion of shares of preferred stock.

e. Redemption:

The preferred stock is not redeemable except in accordance with the deemed liquidation provision as described above or the provisions of the Laboratory Stock Exchange Agreement. In connection with the Citrano acquisition during 2012, the Company entered into a Laboratory Stock Exchange Agreement, whereby the Citrano shareholders, who are the holders of Series B-1 and B-2 preferred stock, had the one-time right to acquire back from the Company the Citrano business in exchange for the relinquishment of their holding of the Series B-1 and B-2 preferred shares on the third anniversary (August 31, 2015) of the acquisition date. The Company determined that such right had minimal value at the date of the acquisition. The holders of the Series B-1 and B-2 preferred shares elected not to redeem the shares on August 31, 2015. Accordingly, the balance of the Series B-1 and B-2 preferred shares have been reclassified from mezzanine to permanent equity.

CD DIAGNOSTICS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements December 31, 2015 and 2014

NOTE G - RESTRICTED STOCK

A summary of restricted stock granted, vested and unvested outstanding as of December 31, 2015 is presented below:

	<u>Restricted Shares</u>	<u>Weighted Average Grant Price</u>
Unvested restricted shares outstanding at January 1, 2014	-	\$ 6.98
Granted	48,200	6.98
Vested	<u>(4,100)</u>	<u>6.98</u>
Unvested restricted shares outstanding at December 31, 2014	44,100	\$ 6.98
Granted	53,100	6.98
Vested	<u>(600)</u>	<u>6.98</u>
Unvested restricted shares outstanding at December 31, 2015	<u>96,600</u>	<u>\$ 6.98</u>

Certain restricted stock awards have performance-based vesting provisions and are subject to forfeiture, in whole or in part, if these performance conditions are not achieved. Management assesses, on an ongoing basis, the probability of whether the performance criteria will be achieved and, once it is deemed probable, compensation expense is recognized over the relevant performance period. For those awards not subject to performance criteria, the cost of the restricted stock awards is expensed on a straight-line basis over the vesting period. The fair value of all awards is based on the fair value of the Company's common stock on the date of grant.

The remaining unrecognized stock-based compensation expense for restricted stock as of December 31, 2015 was approximately \$435,000. Of this amount, approximately \$4,000 relates to time-based awards with a remaining weighted average period of 0.83 year. The remaining \$431,000 of unrecognized stock-based compensation expense relates to performance-based awards for which expense will be recognized over an estimated weighted average period of 2.9 years.

The Company recognized approximately \$100,000 and \$74,000 of total stock-based compensation expense during the years ended December 31, 2015 and 2014, respectively.

There was no tax benefit recognized for stock-based compensation for either of the years ended December 31, 2015 or 2014.

CD DIAGNOSTICS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements December 31, 2015 and 2014

NOTE H - COMMITMENTS

[1] Leases:

During January 2014, the Company extended an office lease through March 15, 2014. The Company issued additional warrants equal to the fair value of the renewed lease space (see Note F).

In September 2013, the Company entered into a new lease agreement for space in New Castle, Delaware. This lease commenced September 1, 2013 and runs through December 31, 2020.

In November 2012, the Company extended the lease for office space in Towson, Maryland through July 2018. Total rent expense was approximately \$550,000 and \$600,000 for the years ended December 31, 2015 and 2014, respectively, and is included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

Future minimum lease payments under noncancelable leases as of December 31, 2015 are as follows:

<u>Year Ending December 31</u>	
2016	\$ 589,000
2017	602,000
2018	532,000
2019	425,000
2020	<u>434,000</u>
	<u>\$ 2,582,000</u>

[2] Employment agreements:

Certain officers of the Company have an employment agreement providing for severance and continuation of benefits in the event of termination without cause, including an event of a change of control of the Company, as defined in the employment agreement.

NOTE I - STOCK OPTIONS

During January 2012, the Company adopted the 2012 Equity Incentive Plan that authorized the issuance of up to 250,000 shares of common stock to employees, directors and consultants to the Company in the form of restricted stock and stock options. The amount and terms of the grants are determined by the Company's Board of Directors. The exercise price, option term and exercisability of the options will all be determined by the Board at the time of each grant.

During February 2014, the Company granted options to purchase 8,000 shares of common stock at an exercise price of \$6.12 per share.

During March 2014, 2,669 options to purchase common stock of the Company were exercised at an exercise price of \$2.12, providing total proceeds of \$5,658.

During June 2014, the Company granted options to purchase 6,000 shares of common stock at an exercise price of \$7.09 per share.

During 2015, 5,000 previously issued stock options were forfeited.

CD DIAGNOSTICS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements December 31, 2015 and 2014

NOTE I - STOCK OPTIONS (CONTINUED)

The Black-Scholes option pricing model was used to estimate the fair value of the options granted during 2014. The following assumptions were used in the valuation:

Expected term (years)	6
Expected volatility	110%
Risk-free interest rate	1.82% - 1.88%
Dividend rate	0%
Forfeiture rate	10%

The Black-Scholes option pricing model requires the input of highly subjective assumptions. Management continues to assess the assumptions and methodologies used to calculate the estimated fair value of stock-based compensation. Circumstances may change and additional data may become available over time, which could result in changes to these assumptions and methodologies, and could materially impact the Company's fair value determinations.

The expected term represents the period that stock-based awards are expected to be outstanding, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior as influenced by changes to the terms of the stock-based awards. The Company elected to use the short-cut method, as defined in applicable accounting literature, of determining the expected term. The computation of expected volatility is based on the historical volatility of comparable public companies from a representative peer group selected based on industry and market capitalization data. The risk-free interest rate is based on the continuous rates provided by the U.S. Treasury with a term approximating the expected life of the option. The expected dividend rate is based on the projected annual dividend payment per share divided by the stock price at the date of grant. Management estimates expected forfeitures and is recognizing compensation cost only for those awards expected to vest. The Company elected the straight-line attribution method in recognizing the grant date fair value of options issued, net of expected forfeitures, over the requisite service periods of the awards, which are generally the vesting periods.

CD DIAGNOSTICS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements December 31, 2015 and 2014

NOTE I - STOCK OPTIONS (CONTINUED)

A summary of activity in the option plan during the years ended December 31, 2015 and 2014 is as follows:

	Outstanding		Exercisable	
	Number of Common Shares Underlying Stock Options	Weighted Average Exercise Price	Number of Common Shares Underlying Stock Options	Weighted Average Exercise Price
Outstanding at January 1, 2014	<u>203,861</u>	\$ 2.92	<u>103,033</u>	<u>\$ 2.47</u>
Granted	14,000	6.54		
Exercised	(2,669)	2.12		
Forfeited and expired	<u>(4,331)</u>	4.89		
Outstanding at December 31, 2014	<u>210,861</u>	\$ 3.43	<u>141,913</u>	<u>\$ 3.12</u>
Forfeited	<u>(5,000)</u>	2.12		
Outstanding at December 31, 2015	<u>205,861</u>	\$ 3.47	<u>170,273</u>	<u>\$ 3.32</u>

Options granted during 2014 had a weighted average grant date fair value of \$5.85 per share.

The following table summarizes information about options outstanding and options exercisable as of December 31, 2015:

Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Common Shares Underlying Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number of Common Shares Underlying Stock Options	Weighted Average Exercise Price
\$2.12	138,087	\$ 2.12	6.01	120,067	\$ 2.12
\$6.12	61,774	\$ 6.12	7.06	46,706	\$ 6.12
\$7.09	<u>6,000</u>	\$ 7.09	8.50	<u>3,500</u>	\$ 7.09
	<u>205,861</u>	\$ 3.43	7.39	<u>170,273</u>	\$ 3.32

In connection with the option awards, the Company recognized approximately \$128,000 and \$121,000 of total stock-based compensation expense during the years ended December 31, 2015 and 2014, respectively.

Total unrecognized compensation expense is approximately \$109,000 as of December 31, 2015 and is expected to be recognized over a weighted average period of 0.89 year.

CD DIAGNOSTICS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements December 31, 2015 and 2014

NOTE J - INCOME TAXES

Net deferred tax assets (liabilities) as of December 31, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Deferred tax assets (liabilities) - noncurrent:		
Net operating loss carryovers	\$ 349,193	\$ 1,260,384
Deferred and equity-based rent	239,747	218,714
Cash to accrual	-	(45,778)
Stock-based compensation	92,366	-
Deferred revenue	198,548	-
Research and development and AMT credits	601,408	376,181
Fixed assets and intangible assets	<u>(697,687)</u>	<u>(726,820)</u>
Total deferred tax assets	783,575	1,082,681
Less valuation allowance	<u>(1,121,104)</u>	<u>(1,424,921)</u>
Net deferred tax liability	<u>\$ (337,529)</u>	<u>\$ (342,240)</u>

The provision (benefit) for income taxes consists of the following for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Current:		
Federal	\$ 23,403	\$ -
State	<u>74,251</u>	<u>-</u>
Total current tax expense	<u>97,654</u>	<u>-</u>
Deferred:		
Federal	-	-
State	<u>(4,711)</u>	<u>(164,426)</u>
Total deferred tax benefit	<u>(4,711)</u>	<u>(164,426)</u>
Total tax expense (benefit)	<u>\$ 92,943</u>	<u>\$ (164,426)</u>

The effective tax rate differs from the statutory rate of 34% due to permanent items and the valuation allowance.

As of December 31, 2015 and 2014, the Company had approximately \$1,038,000 and \$2,995,000, respectively, of federal net operating loss carryforwards. These net operating loss carryforwards begin to expire in 2033. As of December 31, 2015 and 2014, the Company had approximately \$-0-, and \$3,399,000, respectively, of state net operating loss carryforwards. The Company also has research and development tax credit carryforwards of approximately \$575,000 and \$376,000 and approximately \$27,000 and \$-0- of AMT credits for federal income tax reporting purposes as of December 31, 2015 and 2014, respectively, which are available to reduce federal income taxes, if any, through 2034. During 2014, the Company sold its Pennsylvania research and development tax credit and its Keystone Innovation Zone tax credit for approximately \$74,000 and \$88,000, respectively. These amounts are reflected as an income tax benefit in the accompanying consolidated statement of operations.

CD DIAGNOSTICS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements December 31, 2015 and 2014

NOTE J - INCOME TAXES (CONTINUED)

The Internal Revenue Code ("IRC") limits the amounts of net operating loss carryforwards that a company may use in any one year in the event of certain cumulative changes in ownership over a three-year period as described in Section 382 of the IRC. The Company has not performed a detailed analysis to determine whether an ownership change has occurred. Such a change of ownership could limit the Company's utilization of the net operating losses, and could be triggered by subsequent sales of securities by the Company or its stockholders. To the extent that there is a limitation, there would be a reduction in the deferred tax asset with an offsetting reduction in the valuation allowance.

NOTE K - LINE-OF-CREDIT

In connection with the acquisition of Citrano during 2012, the Company assumed a line-of-credit facility with a bank that provided for available funds of up to \$250,000. This line-of-credit contained an interest rate of 4.25% annually. During July 2014, the Company refinanced this line-of-credit with the bank which provides for available funds of 80% of eligible accounts receivable up to a maximum of \$1,000,000. This facility bears interest daily at a rate of 3.5% above the one-month London Interbank Offered Rate ("LIBOR"), adjusted daily (0.4275% as of December 31, 2015), and is due on demand.

The balance on this facility as of December 31, 2015 and 2014 was approximately \$475,000 and \$772,000, respectively.

NOTE L - SUBSEQUENT EVENTS

The Company has evaluated subsequent events through April 29, 2016, which is the date the consolidated financial statements were available to be issued.

On March 11, 2016, the Company signed a letter of intent to purchase assets from an unrelated party including intellectual property and related technology for a purchase price of \$3,000,000.

On March 30, 2016, the Company entered into a nonbinding letter of intent to merge the Company into its corporate partner.

On April 4, 2016, the Company entered into a bridge loan agreement with the same corporate partner and secured a convertible promissory note on April 6, 2016 in the amount of \$3,000,000 to provide funding for the asset purchase for the March 11, 2016 letter of intent. The interest rate on this bridge loan is 6% per annum. The note automatically converts all outstanding principal and interest accrued to the maturity date into Series A-1 preferred stock of the Company at a conversion price equal to \$23.74 per share. The Series A-1 preferred stock shall be identical to the Company's Series A preferred stock on all matters, including voting, dividends, liquidation preference, protective provisions, conversion, and anti-dilution protection, except that the original issue price of the Series A-1 preferred stock shall be \$23.74. If the merger with the corporate partner is completed, the purchase price would be reduced by the amount of this bridge loan and the related debt would be forgiven.