REVIEWED
FINANCIAL STATEMENTS

GYROTRON TECHNOLOGY, INC.

September 30, 2014
with
REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

GYROTRON TECHNOLOGY, INC.
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FreedMaxick CPAs, P.C.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Gyrotron Technology, Inc.

We have reviewed the accompanying balance sheet of Gyrotron Technology, Inc. as of September 30, 2014, the related statements of operations for the three month and nine month periods ended September 30, 2014 and 2013, and the related statements of cash flows and changes in stockholders' deficiency for the nine month periods ended September 30, 2014 and 2013. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements and Note 1 to the annual financial statements for the year ended December 31, 2013 not presented herein, the Company has suffered recurring losses from operations, has a net stockholders' deficiency, and its total liabilities exceeds its total assets. This raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1 to the respective financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board, the balance sheet of Gyrotron Technology as of December 31, 2013, and the related statements of operations, changes in stockholder's deficiency, and cash flows for the year then ended not presented herein; and in our report dated April 17, 2014, we expressed an unqualified opinion on those financial statements and included an explanatory paragraph concerning matters that raise substantial doubt about the Company's ability to continue as a going concern. In our opinion, the information set forth in the accompanying balance sheet as of December 31, 2013 is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

Freed Maxick CPAs, P.C.

Buffalo, New York
November 26, 2014

GYROTRON TECHNOLOGY, INC.
BALANCE SHEETS

	SEPTEMBER 30, 2014 (Unaudited)	DECEMBER 31, 2013
ASSETS		
Current assets:		
Cash	$ 114,556	$ 60,082
Accounts receivable-net	140	-
Prepaid expenses and other current assets	3,865	25,347
Loan receivable-director	-	8,973
Loan receivable-officer	-	24,155
Total current assets	118,561	118,557
Machinery and equipment-net	67,890	89,476
Patents-net	53,944	54,358
Other assets	12,253	12,253
Total assets	$ 252,648	$ 274,644
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities:		
Note payable	$ -	$ 46,784
Loan - stockholder	40,000	-
Accounts payable	42,131	74,913
Accrued expenses and other liabilities	28,977	9,257
Accrued employee compensation	345,944	363,864
Registration rights obligation	365,480	260,136
Total current liabilities	822,532	754,954
Commitments and contingencies (Note 11)		
Stockholders' deficiency		
Preferred stock, 1,000,000 shares authorized, $0.001 par value		
Series A: 450,000 shares designated, 436,774 outstanding	437	437
Series A-1: 125,000 shares designated, 61,910 outstanding	62	62
Series B: 40,000 shares designated, 39,959 outstanding	40	40
Series B-1: 80,000 shares designated, 40,130 outstanding (21,343 - 2013)	40	22
Common stock, 25,000,000 shares authorized, $0.001 par value, 15,222,024 shares issued (11,903,664-2013) and 14,414,058 shares outstanding (11,095,698-2013)	15,222	11,904
Additional paid-in capital	9,373,058	8,797,951
Accumulated deficit	(9,568,040)	(8,900,023)
	(179,181)	(89,607)
Treasury stock, 807,966 shares, at cost	(390,703)	(390,703)
Total stockholders' deficiency	(569,884)	(480,310)
Total liabilities and stockholders' deficiency	$ 252,648	$ 274,644

See accompanying notes.

GYROTRON TECHNOLOGY, INC.
STATEMENTS OF OPERATIONS
For the Nine Months Ended September 30,
(Unaudited)

		2014		2013
Revenues	**$**	**141,395**	$	268,795
Cost of revenues		**40,360**		236,646
Gross profit		**101,035**		32,149
Operating expenses:				
Selling, general and administrative		**626,970**		396,684
Research and development		**53,573**		31,581
Total operating expenses		**680,543**		428,265
Operating loss		**(579,508)**		(396,116)
Other (expense) income:				
Other income		**16,835**		4,526
Interest and penalties expense		**-**		(1,035)
Registration rights obligation		**(105,344)**		-
Net loss		**(668,017)**		(392,625)
Preferred stock dividends accumulated and warrants		**(564,922)**		(652,648)
Net loss attributable to common stockholders	**$**	**(1,232,939)**	$	(1,045,273)
Loss per common share-basic and diluted	**$**	**(0.09)**	$	(0.09)
Weighted average common shares outstanding-basic and diluted		**13,655,582**		11,095,698

See accompanying notes.

GYROTRON TECHNOLOGY, INC.
STATEMENTS OF OPERATIONS
For the Three Months Ended September 30,
(Unaudited)

		2014		2013
Revenues	$	**48,350**	$	43,795
Cost of revenues		**12,285**		24,425
Gross profit		**36,065**		19,370
Operating expenses:				
Selling, general and administrative		**226,238**		116,704
Research and development		**9,002**		9,504
Total operating expenses		**235,240**		126,208
Operating loss		**(199,175)**		(106,838)
Other (expense) income:				
Other income		**16,835**		-
Interest and penalties expense		**-**		(250)
Registration rights obligation		**(37,760)**		-
Net loss		**(220,100)**		(107,088)
Preferred stock dividends accumulated and warrants		**(214,691)**		(240,295)
Net loss attributable to common stockholders	$	**(434,791)**	$	(347,383)
Loss per common share-basic and diluted	$	**(0.03)**	$	(0.03)
Weighted average common shares outstanding-basic and diluted		**14,414,054**		11,095,698

See accompanying notes.

GYROTRON TECHNOLOGY, INC.

STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY
Nine Months Ended September 30, 2014
(Unaudited)

	Preferred Series A		Preferred Series A-1		Preferred Series B		Preferred Series B-1		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
Balance, December 31, 2013	436,774	$ 437	61,910	$ 62	39,959	$ 40	21,343	$ 22	11,903,664	$ 11,904	$ 8,797,951	$ (8,900,023)	$ (390,703)	$ (480,310)
Issuance of Series B-1 convertible preferred stock, 10% cumulative dividend, net of issuance costs of $3,500	-	-	-	-	-	-	18,169	18	-	-	632,372	-	-	632,390
Issuance of common shares as settlement for dividend on Series A preferred	-	-	-	-	-	-	-	-	2,943,837	2,943	(2,943)	-	-	-
Issuance of common shares as settlement for dividend on Series A-1 preferred	-	-	-	-	-	-	-	-	374,523	375	(375)	-	-	-
Reinvestment of Series B-1 preferred stock dividends	-	-	-	-	-	-	618	-	-	-	-	-	-	-
Declaration of Series B preferred stock dividends	-	-	-	-	-	-	-	-	-	-	(59,940)	-	-	(59,940)
Stock based compensation	-	-	-	-	-	-	-	-	-	-	5,993	-	-	5,993
Net loss	-	-	-	-	-	-	-	-	-	-	-	(668,017)	-	(668,017)
Balance, September 30, 2014	436,774	$ 437	61,910	$ 62	39,959	$ 40	40,130	$ 40	15,222,024	$ 15,222	$ 9,373,058	$ (9,568,040)	$ (390,703)	$ (569,884)

See accompanying notes.

GYROTRON TECHNOLOGY, INC.

STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY
Nine Months Ended September 30, 2013
(Unaudited)

	Preferred Series A		Preferred Series A-1		Preferred Series B		Preferred Series B-1		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
Balance, December 31, 2012	436,774	$ 437	61,910	$ 62	39,927	$ 40	588	$ 1	11,903,664	$ 11,904	$ 8,084,140	$ (8,281,143)	$ (390,703)	$ (575,262)
Settlement of liablility with Series B preferred, 10% cumulative dividend	-	-	-	-	332	-	-	-	-	-	9,986	-	-	9,986
Issuance of Series B-1 convertible preferred stock, 10% cumulative dividend	-	-	-	-	-	-	12,947	13	-	-	453,107	-	-	453,120
Series B-1 registration rights obligation	-	-	-	-	-	-	-	-	-	-	(4,400)	-	-	(4,400)
Conversion of Series B for Series B-1 preferred	-	-	-	-	(300)	-	255	-	-	-	-	-	-	-
Reinvestment of Series B-1 preferred stock dividends	-	-	-	-	-	-	528	1	-	-	-	-	-	1
Net loss	-	-	-	-	-	-	-	-	-	-	-	(392,625)	-	(392,625)
Balance, September 30, 2013	436,774	$ 437	61,910	$ 62	39,959	$ 40	14,318	$ 15	11,903,664	$ 11,904	$ 8,542,833	$ (8,673,768)	$ (390,703)	$ (509,180)

See accompanying notes.

GYROTRON TECHNOLOGY, INC.
STATEMENTS OF CASH FLOWS
For the Nine Months
Ended September 30,
(Unaudited)

	2014	2013
Cash flows from operating activities:		
Net loss	$ **(668,017)**	$ (392,625)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	**69,184**	68,907
Gain on extinguishment of note payable	**(16,835)**	-
Stock based compensation	**5,993**	-
Loans receivable, officer, forgiven	**24,155**	-
(Increase) decrease in assets:		
Accounts payable	**(140)**	4,095
Customer contracts in progress	**-**	200,000
Prepaid expenses and other current assets	**21,482**	-
Financing receivable	**-**	90,000
Increase (decrease) in liabilities:		
Accounts payable	**(31,809)**	74,585
Accrued expenses and other liabilities	**19,720**	(33,825)
Accrued employee compensation	**(17,920)**	48,077
Registration rights obligation	**105,344**	-
Unearned revenue	**-**	(210,000)
Net cash used by operating activities	**(488,843)**	(150,786)
Cash flows from investing activities:		
Deposit on capital lease	**(40,000)**	-
Payments for patents	**(7,184)**	-
Net cash used by investing activities	**(47,184)**	-
Cash flows from financing activities:		
Repayments of note payable	**(29,949)**	(1,949)
Proceeds from sale of preferred stock, net of issuance costs	**632,390**	357,080
Loan from stockholder	**40,000**	-
Repayments of capital lease liability	**-**	(115,000)
Dividends paid on Series B Preferred	**(59,940)**	-
Proceeds from repayment of note receivable - director	**8,000**	-
Net proceeds from repayment of advances from shareholders	**-**	(34,078)
Net cash provided by financing activities	**590,501**	206,053
Net increase in cash	**54,474**	55,267
Cash - beginning of period	**60,082**	8,219
Cash - end of period	$ **114,556**	$ 63,486
Supplemental disclosure of non-cash financing activities:		
Common stock issued in payment of accumulated and declared dividends on Series A Preferred	$ **1,913,479**	$ -
Common stock issued in payment of accumulated and declared dividends on Series A-1 Preferred	$ **243,440**	$ -
Series B-1 preferred dividends paid by issuance of Series B-1 shares	$ **21,625**	$ 18,464
Registration rights obligation offseting additional paid-in capital	$ **-**	$ 4,400
Settlement of liability with issuance of Series B Preferred	$ **-**	$ 9,986
Conversion of advances into Series B-1 Preferred	$ **-**	$ 96,040

See accompanying notes.

NOTE 1. - BUSINESS DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Description - Gyrotron Technology, Inc. (the "Company") is incorporated under the business laws of Delaware. The Company develops and seeks to license unique industrial technologies primarily to the glass, semiconductor, food, footwear, adhesives and plastics industries, providing a novel method for heating for industrial processing. It also develops, licenses, and sells autoclave-free laminating systems. The Company is organized and managed as a single operating segment.

Basis of Presentation – The accompanying unaudited financial statements have been prepared in accordance with United States generally accepted accounting principles for interim financial information and do not include all of the information and footnotes required by United States generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary to fairly state the financial position, results of operations and cash flows with respect to the interim financial statements have been included. Operating results for the nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. The financial statements should be read in conjunction with the 2013 audited financial statements and the notes thereto.

Liquidity and Management Plans - As shown in the accompanying financial statements, the Company incurred a net loss for the three and nine months ended September 30, 2014 of $220,100 and $668,017, respectively, and had negative working capital of $703,971 and stockholders' deficiency of $569,884 at September 30, 2014. Further, cash used in operating activities during the nine months ended September 30, 2014 amounted to $488,843. The Company is expected to continue to incur losses throughout the remainder of 2014.

The Company's business strategy is to overcome these losses through commercialization and continued development of (i) applications for the gyrotron beam which will be marketed and monetized through licensing, engineering consulting and servicing and (ii) the lamination system.

The Company's management and Board of Directors have obtained additional funding after September 30, 2014 (see Note 12) and intend to obtain additional funding for general working capital needs and professional fees through private placement of its equity securities. The Company will continually evaluate funding options including additional offerings of its securities to investors. There can be no assurance as to the availability or terms upon which such financing alternatives might be available.

Accounts Receivable - The Company grants credit to substantially all of its customers, and carries its accounts receivable at original invoice amount less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts based on history of past write-offs, collections, and current credit conditions. The allowance for doubtful accounts amounted to $3,218 at September 30, 2014 and December 31, 2013.

Machinery and Equipment - Machinery and equipment are stated at cost net of accumulated depreciation. Depreciation is provided over the estimated useful lives of the assets once placed in service using straight-line and accelerated methods for both financial statement and income tax reporting purposes. Maintenance and repairs are charged to operations as incurred; significant betterments are capitalized. Depreciation expense amounted to $20,529 for each of the three months ended September 30, 2014 and 2013 and $61,586 for each of the nine months ended September 30, 2014 and 2013, and is included within operating expenses in the accompanying statements of operations.

NOTE 1. - BUSINESS DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patents - The Company capitalizes costs relative to patent applications. Patents are recorded at acquired cost and amortized over their estimated useful economic life of 15 years, beginning at the date of issuance. Costs incurred to renew or extend the term of recognized patents, including annuities and fees, are expensed as incurred.

Impairment of Long-Lived Assets - Long-lived assets and certain identifiable intangibles 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 the undiscounted future cash flows of the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Fair value is determined based on discounted cash flow or appraised values, depending on the nature of the assets. There was no impairment of long-lived assets during the nine months ended September 30, 2014 and 2013.

Income Taxes - The Company recognizes estimated income taxes payable or refundable on income tax returns for the current year and the estimated future tax effect attributable to temporary differences and carry-forwards. Measurement of deferred income items is based on enacted tax laws including tax rates, with the measurement of deferred income tax assets being reduced by available tax benefits not expected to be realized.

Share-Based Payments - The Company accounts for stock option awards granted in accordance with Share-Based Payments Topic of the FASB Accounting Standards Codification (ASC) 718. Under ASC 718, compensation expense related to stock based payments is recorded over the requisite service period based on the grant date fair value of the awards. The Company uses the Black-Scholes option pricing model for determining the estimated fair value for stock-based awards. The Black-Scholes model requires the use of assumptions which determine the fair value of stock-based awards, including the option's expected term and the price volatility of the underlying stock.

Treasury Stock - The Company accounts for treasury stock under the cost method, which requires the Company to record the shares as a reduction to equity at the purchased amount.

Revenue Recognition - In accordance with Revenue Recognition Topic of the FASB Accounting Standards Codification (ASC) 805, the Company recognizes revenue when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the Company's price to the customer is fixed or determinate, and collectability is reasonably assured.

Multiple-Element Arrangements - The Company enters into multiple-element contractual arrangements with customers including the technology license, delivery of equipment, installation, consulting, testing and training. Elements under such contracts are considered separate units of accounting if both of the following criteria are met: i) the delivered item(s) have value to the customer on a standalone basis and ii) if the arrangement includes a general right of return relative to the delivered item(s), delivery or performance is considered probable and substantially in control of the Company. For deliverables not meeting the criteria for being a separate unit of accounting, the appropriate allocation of arrangement consideration and recognition of revenue is then determined for the combined unit of accounting. Revenue is allocated amongst deliverables in a multiple-element revenue arrangement according to fair value with an allocation based on selling price. The selling price used for each deliverable will be based on vendor-specific objective evidence ("VSOE") if available, third-party evidence if VSOE is not available, or management's estimate of an element's stand-alone selling price if neither VSOE nor third-party evidence is available. The selling price is allocated amongst deliverables based upon each deliverable's relative selling price to total revenue consideration. The amount allocable to the delivered unit or units of accounting is limited to the amount that is not contingent upon the delivery of additional items or meeting other specified performance conditions.

NOTE 1. - BUSINESS DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Sales-Type Leases - The Company provides lease financing through sales-type leases. Leases qualify as sales-type leases using the present value of minimum lease payments classification criteria. The Company believes that the sales-type lease contains only normal collection risk. Accordingly, the Company records the fair value of equipment as revenue, the cost of equipment as cost of revenue and the minimum lease payments plus the estimated residual value as finance receivables.

Research and Development Expenses - Research and development expenses are charged to operations as incurred.

Loss Per Common Share - Basic loss per common share is computed using the weighted average number of common shares outstanding. Diluted loss per common share gives effect to dilutive convertible preferred stock, options and warrants outstanding during the period. Shares to be issued upon the exercise of these instruments have not been included in the computation of diluted loss per share as their effect is anti-dilutive based on the net loss incurred.

As of September 30, 2014, there were the following common shares underlying securities that could potentially dilute future earnings:

Preferred A stock	1,637,903
Preferred A-1 stock	232,163
Preferred B stock	1,198,770
Preferred B warrants	1,044,864
Preferred B-1 stock	2,006,497
Preferred B-1 warrants	1,912,950
Options	60,000
Other warrants	60,000
	8,153,147

Accounting Estimates - The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results may differ from estimated amounts.

Fair Value of Financial Instruments - The carrying amount of cash, receivables, accounts payable and accrued expenses and other liabilities are reasonable estimates of their fair value due to their short maturity.

Reclassification – Certain balances in 2013 have been reclassified to conform with the 2014 financial statement presentation.

New Accounting Pronouncements Not Yet Adopted - In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." The new guidance 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. The updated guidance will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a retrospective or cumulative effect transition method. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The Company has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements and related disclosures.

NOTE 1. - BUSINESS DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In August 2014, the FASB issued ASU No. 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." The guidance requires an entity to evaluate whether there are conditions or events, in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued and to provide related footnote disclosures in certain circumstances. The guidance is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early application is permitted. The Company is currently evaluating the effect that the updated standard will have on its financial statements and related disclosures.

NOTE 2. - LOAN RECEIVABLE, OFFICER

The Company had a non-interest bearing loan to an officer that was due on demand in the amount of $24,155. During the nine months ended September 30, 2014, the Company forgave the loan. The expense is included in selling, general and administrative expenses on the accompanying statements of operations for the nine months ended September 30, 2014.

NOTE 3. - MACHINERY AND EQUIPMENT

The components of machinery and equipment are as follows:

	Estimated Useful Life	September 30, 2014	December 31, 2013
Machinery and equipment	5 to 7 years	$ 882,338	$ 882,338
Furniture and fixtures	5 to 7 years	25,874	25,874
Deposit on capital lease		40,000	-
		948,212	908,212
Less accumulated depreciation		(880,322)	(818,736)
		$ 67,890	$ 89,476

NOTE 4. – PATENTS

The components of patents are as follows:

	September 30, 2014	December 31, 2013
Patents	$ 153,607	$ 146,423
Less accumulated amortization	(99,663)	(92,065)
	$ 53,944	$ 54,358

The Company amortizes patent costs on a straight-line basis over the expected period of benefit of the related capitalized expenditures. Amortization expense amounted to $2,602 and $2,441 for the three months ended September 30, 2014 and 2013, respectively, and $7,598 and $7,321 for the nine months ended September 30, 2014 and 2013, respectively and is included in operating expenses on the accompanying statements of operations. Excluding patents that have not been issued as of September 30, 2014, amortization expense for the next five years is expected to be approximately $3,000 for the remainder of 2014, approximately $10,000 per year for 2015 through 2016, approximately $6,000 in 2017 and approximately $18,000 thereafter.

NOTE 5. - NOTE PAYABLE AND STOCKHOLDER LOAN

The Company had a note payable due to Ben Franklin Technology Center of Southeastern Pennsylvania (the Center). The terms of the note stated the Company was required to pay a maximum of 150% times the $50,000 borrowed amount. The rate of repayment was 3% of all Company revenues. Payments were due within thirty days after the end of each quarter. Amounts due which are not paid within 10 days after the due date bore interest at 15% per year. The note payable was secured by substantially all assets of the Company. In accordance with the loan agreement, the Company was required to comply with various terms and conditions. As of December 31, 2013 the Company was not in compliance with certain provisions. As a result, the Center had the option to demand payment of the entire amount outstanding immediately. Accordingly, the balance was classified as current in the accompanying balance sheet as of December 31, 2013. During the nine months ended September 30, 2014, the Company paid the Center $28,000 in full settlement of its obligation under the note and recognized a gain on extinguishment in the amount of $16,835, included in other income on the accompanying statement of operations.

Gabriel Capital LP, a stockholder of the Company, lent the Company $40,000 in July, 2014 to purchase machinery and equipment. There is no interest on the loan. This informal loan is to be repaid on July 1, 2015, or earlier to the extent the Company has cash in excess of $250,000. See also Note 12.

NOTE 6. - SERIES A & A-1 CONVERTIBLE PREFERRED STOCK

The Board of Directors has designated 450,000 shares of convertible Series A par value $.001 preferred stock and 125,000 shares of convertible Series A-1 par value $.001 preferred stock. Each share of Series A and A-1 preferred stock shall has a liquidation preference equal to $6 per share plus any accrued or declared and unpaid dividends owed to holders of shares. In the event of a liquidation, winding up, or dissolution of the Company, no distribution shall be made to holders of shares of common stock ranking junior to Series A and A-1 preferred stock. Series A and A-1 preferred stock rank equal for all purposes.

The holders of preferred stock have the right to one vote for each share of common stock into which such share of preferred stock could then be converted.

In accordance with Series A and A-1 certificates of designation above, cumulative dividends on each share of Series A and A-1 preferred stock accrue at a rate of 10% of the $6 liquidation amount. After May 31, 2011, the dividend rate increased from 10% to 18%. Dividends are payable quarterly in cash when and if declared by the Board of Directors. The dividends accrue and accumulate whether or not they have been declared by the board of directors and whether or not there are profits or other funds legally available.

In January 2014, the Company amended the certificate of designation of the Series A Preferred with the effect of satisfying cumulative unpaid dividends through September 30, 2013 with common stock at the rate of one common share per $0.65 of dividends, and reducing the dividend rate to 10% from 18% beginning October 1, 2013. As a result of the board of directors' declaration of dividends in February 2014, $1,913,479 of cumulative dividends were satisfied with 2,943,837 shares of common stock. These shares were issuable at September 30, 2014 and a portion of them have not been issued for administrative reasons. Accordingly, the presentation in these financial statements considers these shares as effectively issued.

In May 2014, the Company amended the certificate of designation of the Series A-1 Preferred with the effect of satisfying cumulative unpaid dividends through December 31, 2013 with common stock at the rate of one common share per $0.65 of dividends, and reducing the dividend rate to 10% from 18% beginning January 1, 2014. As a result of the board of directors' declaration of dividends in June 2014, $243,440 of cumulative dividends were satisfied with 374,523 shares of common stock. These shares were issuable at September 30, 2014 and a portion of them had not been issued for administrative reasons. Accordingly, the presentation in these financial statements considers these shares as effectively issued.

NOTE 6. - SERIES A & A-1 CONVERTIBLE PREFERRED STOCK (CONTINUED)

During the three months ended September 30, 2014 and 2013, there were $65,516 and $117,929, respectively, of preferred stock dividends accumulated for Series A preferred stock. During the nine months ended September 30, 2014 and 2013, there were $196,548 and $353,787, respectively, of preferred stock dividends accumulated for Series A preferred stock. At September 30, 2014 and December 31, 2013, there were cumulative unpaid dividends of $262,152 and $1,979,171, respectively, for Series A preferred stock.

During the three months ended September 30, 2014 and 2013, there were $9,287 and $16,716 of preferred stock dividends accumulated for Series A-1 preferred stock. During the nine months ended September 30, 2014 and 2013, there were $27,860 and $50,147 of preferred stock dividends accumulated for Series A-1 preferred stock. At September 30, 2014 and December 31, 2013, there were cumulative unpaid dividends of $27,860 and $243,440, respectively, for Series A-1 preferred stock.

Prior to the amendments described above, on or after April 30, 2012, a holder could have requested the Company to repurchase on the date which is 31 calendar days thereafter, all shares of Series A or A-1 preferred stock held by the holder for cash equal to $6 per share plus accrued and declared but unpaid dividends as of the repurchase date. The Company had the option whether or not to agree to the repurchase. If the Company had failed to repurchase the shares, the majority holders of Series A and A-1 stock would have had the right to elect the majority of the board of directors. No such holder at any time requested the Company repurchase all shares of Series A or A-1 preferred. Majority holders did not exercise the right to elect the majority of the board of directors.

After giving effect to the aforementioned amendments, on or after May 31, 2015, a holder of the Series A or A-1 preferred stock can request the Company repurchase on the date which is 30 calendar days thereafter, all shares of Series A or A-1 preferred stock held by the holder for cash equal to $6 per share plus accrued and unpaid dividends as of the repurchase date. The Company has the option whether or not to agree to the repurchase. In the event the Company fails to repurchase, or, after December 31, 2014, payment of dividends on a series of preferred stock is four quarters in arrears, the dividend rate on that series will increase to 18% and the majority holders of said series together with holders of any series of equal seniority, will have the right to elect the majority of the board of directors until such failure or arrearage is cured. At September 30, 2014, dividends on the Series A and A-1 were four and three quarters in arrears, respectively.

Under both the Series A and Series A-1 certificates of designation, as a result of a prior default, the holder had the right, at any time, to convert each share of preferred stock into 3.53 (the conversion ratio) shares of common stock , or a conversion price of $1.70. The amendment to the certificate of designation of the Series A preferred stock in the first quarter of 2014 and the amendment to the certificate of designation of the Series A-1 preferred stock in the second quarter of 2014 reduced the conversion price to $1.60, resulting in each share being convertible into 3.75 shares of common stock. The conversion ratio and price are subject to adjustment when the Company declares or pays dividends, makes a distribution on common stock payable in common shares, or affects a subdivision, split, consolidation, combination, or reverse split of outstanding common shares into a greater or lesser number of common shares. Due to the uncertainty surrounding redemption as a result of the conversion feature, the Series A and A-1 preferred stock is classified as equity in the accompanying financial statements.

NOTE 6. - SERIES A & A-1 CONVERTIBLE PREFERRED STOCK (CONTINUED)

The Company, at its option, may require conversion of all or any pro-rata portion of shares of Series A or A-1 preferred stock outstanding into common stock at the conversion price if at any time i) the common stock is listed for trading on a national securities exchange, an inter-dealer automated quotation system, or over the counter bulletin board, ii) the Company shall have prepared and filed with the Securities and Exchange Commission a registration statement covering the shares of common stock to be issued upon due conversion of preferred stock, and such registration statement shall have been declared effective under the Securities Act of 1933, as amended, and continues to be effective, iii) during any preceding period of twenty consecutive trading days (while i) and ii) are fulfilled) the closing price equals or exceeds 150% of the conversion price, and iv) the Company is current on its dividends for that Series.

Registration Rights - In connection with the Series A-1 preferred stock subscription agreements, the Company agreed to pay the various subscribers 1/2% of the aggregate purchase price of shares acquired each month beginning on various dates between December 1, 2009 and July 1, 2010 until i) the Company has prepared and filed a registration statement with the Securities and Exchange Commission which has been declared effective under the Securities Act or the holder is then able to sell the underlying common shares under Rule 144 promulgated pursuant to the Securities Act and ii) the Company has obtained a ticker symbol and common shares are eligible to trade on the OTCBB. At September 30, 2014 and December 31, 2013, the estimated liability amounted to $116,299 and $99,851, respectively, and the resulting change for the three and nine months ended September 30, 2014 amounting to $5,583 and $16,448, respectively, is included as other expense in the accompanying statements of operations. The arrangement provides for no limitation as to the maximum potential consideration to be transferred.

NOTE 7. - SERIES B CONVERTIBLE PREFERRED STOCK

The Board of Directors has designated 40,000 shares of 10% convertible Series B par value $.001 preferred stock. During the nine months ended September 30, 2013, the Company issued 332 shares of Series B preferred with no warrants for settlement of approximately $10,000 services previously rendered, and a director exchanged 300 shares of Series B preferred for 255 shares of Series B-1 preferred.

Commencing on July 1, 2011, cumulative dividends on each share accrue at a rate of 10% of the $30 liquidation amount. Dividends are payable quarterly in cash when and if declared by the Board of Directors. The dividends accrue whether or not they have been declared by the board of directors and whether or not there are profits or other funds legally available. During the three and nine months ended September 30, 2013, there were $29,969 and $90,133, respectively, of preferred stock dividends accumulated for Series B preferred stock. During the three and nine months ended September 30, 2014, there were $29,969 and $89,908 of preferred stock dividends accumulated for Series B preferred. During the three months and nine months ended September 30, 2014, there were $29,969 and $59,940 of preferred stock dividends declared and paid.

At September 30, 2014 and December 31, 2013, there were cumulative unpaid dividends of $150,071 and $120,102, respectively, for the Series B preferred stock. On each of June 30, 2014 and September 30, 2014, the Company paid one quarter of accrued dividends to the Series B holders.

Each share of Series B preferred stock has a liquidation preference equal to $30 per share plus any accrued or declared and unpaid dividends owed to holders of shares. In the event of a liquidation, winding up, or dissolution of the Company, the Series B ranks senior to the common stock and junior to the Series A and A-1 preferred stock.

NOTE 7. - SERIES B CONVERTIBLE PREFERRED STOCK (CONTINUED)

The holder of Series B preferred stock has the right, at any time, to convert each share into common stock at a conversion ratio of one share of Series B preferred stock to 30 shares of common stock conversion price of $1 per common share. The conversion ratio is subject to adjustment when the Company declares or pays dividends, makes a distribution on common stock payable in common shares, or affects a subdivision, split, consolidation, combination, or reverse split of outstanding common shares into a greater or lesser number of common shares. The original conversion price of $3 per common share was adjusted to $1 as a result of a stock split during 2012. The Series B holder would be entitled to receive the number of common stock or securities or property that such holder would have owned or been entitled to receive upon the happening of such event had the Series B preferred been converted immediately prior to the record or effective date of such event.

The Company, at its option, may require conversion of all or any pro-rata portion of shares of Series B preferred stock outstanding into common stock if at any time i) the common stock is listed for trading on a national securities exchange, an inter-dealer automated quotation system, or over the counter bulletin board, ii) the Company shall have prepared and filed with the Securities and Exchange Commission a registration statement covering the shares of common stock to be issued upon due conversion of preferred stock, and such registration statement shall have been declared effective under the Securities Act of 1933, iii) during any preceding period of twenty consecutive trading days (while i) and ii) are fulfilled) the closing price equals or exceeds 166 2/3% of the conversion price then in effect, and iv) the Company is current on its dividends on the Series B preferred stock. The holders of Series B preferred stock have the right to one vote for each share of common stock into which such share of preferred stock could then be converted.

On or after May 31, 2016, a holder can request the Company repurchase on the date which is 30 calendar days thereafter, all shares of Series B preferred stock held by the holder for cash equal to $30 per share plus accrued and unpaid dividends as of the repurchase date. The Company has the option whether or not to agree to the repurchase. In the event the Company fails to repurchase or payment of Series B dividends is six quarters in arrears, the post-split conversion price shall decrease to $0.85, and in addition, until such failure or arrearage is cured, the dividend rate will increase to 18% and the majority holders of Series B preferred stock have the right to elect the majority of the board of directors, At September 30, 2014, dividends on the Series B were five quarters in arrears.

Warrants - In connection with the Series B preferred stock subscription agreements, purchasers' acquired ten detachable warrants for each share of purchased Series B preferred. Each warrant entitles the holder to acquire three shares of $.001 par value common stock at an exercise price of $1 per common share, and expires on the earlier of March 31, 2015 or such date after September 30, 2012 at which i) the common stock is listed on the OTCBB and ii) the shares to be acquired by exercise of the warrants have been registered under the Securities Act of 1933, for 60 consecutive days. If the Company subdivides or combines its common stock, issues or pays the holders of common stock, or take a record of the holders of common stock for the purpose of entitling them to receive a dividend payable in or distribution of common stock, the number of shares of common stock purchasable upon exercise of the warrant and the warrant price shall be proportionally adjusted.

NOTE 7. - SERIES B CONVERTIBLE PREFERRED STOCK (CONTINUED)

Registration rights - In connection with the Series B preferred stock subscription agreement, the Company agreed to pay subscribers 1/2% of the liquidation preference of shares held by subscribers each month beginning on dates varying from January 1, 2012 to September 1, 2012 until i) the common shares are eligible for trading on the OTCBB and ii) the common shares issuable upon conversion of the shares shall be registered under the Securities Act of 1933 or the subscriber is able to sell such common shares under Rule 144. Because the transfer of consideration is probable and reasonably estimable at inception of the arrangement, the contingent liability related to registration rights was included in the allocation of proceeds in accordance with GAAP.

As of September 30, 2014 and December 31, 2013, the estimated liability amounted to $197,508 and $150,489, respectively, and the change in the estimated liability for the three and nine months ended September 30, 2014 amounting to $15,673 and $47,019 respectively, is included in other expense of the accompanying statements of operations. The arrangement provides for no limitation as to the maximum potential consideration to be transferred.

NOTE 8. - SERIES B-1 CONVERTIBLE PREFERRED STOCK

In November 2012, the Board of Directors designated 20,000 shares of 10% convertible Series B-1 par value $.001 preferred stock. In connection therewith, for each $35 of consideration, the Company offered one unit consisting of one share of Series B-1 convertible preferred stock and 50 common stock warrants exercisable at $1.00 per share. In March 2014, the certificate of designation was amended to increase in the shares designated to 80,000. During the nine months ended September 30, 2014 and 2013 the Company issued 18,169 and 12,947 shares of Series B-1 preferred and 908,450 and 647,350 warrants for proceeds of $635,890 and $453,120, respectively. In addition, during the nine months ended September 30, 2013, one stockholder exchanged 300 shares of Series B preferred for 255 shares of Series B-1 preferred.

The holder of Series B-1 preferred stock has the right, at any time, to convert each share into common stock at a conversion ratio of one share of Series B-1 preferred stock to 50 shares of common stock at a conversion price of $.70 per common share. Each share of Series B-1 preferred stock has a liquidation preference equal to $35 per share plus any accrued or declared and unpaid dividends owed to holders of shares. In the event of a liquidation, winding up, or dissolution of the Company, the Series B-1 ranks senior to the common stock, junior to the Series A and A-1 preferred stock, and equal to the Series B preferred stock.

Commencing December 31, 2012, cumulative dividends on each share accrue at a rate of 10% of the $35 liquidation amount. Dividends are payable quarterly in cash when and if declared by the Board of Directors. The dividends accrue whether or not they have been declared by the board of directors and whether or not there are profits or other funds legally available. Through March 31, 2014, in the event that dividends have not been declared by the board of directors prior to the relevant dividend payment date, such dividends shall be payable in shares of Series B-1 preferred stock. During the three months ended September 30, 2013 and nine months ended September 30, 2014 and 2013, dividends of $8,211, $21,625 and $18,464, respectively, were paid by the issuance of 235, 618 and 528 shares, respectively, of Series B-1 preferred. During the three and nine months ended September 30, 2014, there were $30,640 and $59,068 of preferred stock dividends accumulated for Series B-1 preferred stock not paid by the issuance of Series B-1 preferred.

NOTE 8. - SERIES B-1 CONVERTIBLE PREFERRED STOCK (CONTINUED)

The conversion ratio is subject to adjustment when the Company declares or pays dividends, makes a distribution on common stock payable in common shares, or affects a subdivision, split, consolidation, combination, or reverse split of outstanding common shares into a greater or lesser number of common shares. The Series B-1 holder is entitled to receive the number of common stock or securities or property that such holder would have owned or been entitled to receive upon the happening of such event had the Series B-1 preferred been converted immediately prior to the record or effective date of such event. The conversion price of $0.70 is adjusted based on changes in the conversion ratio.

The Company, at its option, may require conversion of all or any prorata portion of shares of Series B-1 preferred stock outstanding into common stock if at any time i) the common stock is listed for trading on a national securities exchange, an inter-dealer automated quotation system, or over the counter bulletin board, ii) the Company shall have prepared and filed with the Securities and Exchange Commission a registration statement covering the shares of common stock to be issued upon due conversion of preferred stock, and such registration statement shall have been declared effective under the Securities Act of 1933, iii) during any preceding period of twenty consecutive trading days (while i) and ii) are fulfilled) the closing price equals or exceeds 157% of the conversion price then in effect, and iv) the Company is current on its dividends on the Series B-1 preferred stock. The holders of Series B-1 preferred stock have the right to one vote for each share of common stock into which such share of preferred stock could then be converted.

On or after August 31, 2017, a holder can request the Company repurchase on the date which is 30 calendar days thereafter, all shares of Series B-1 preferred stock held by the holder for cash equal to $35 per share plus accrued and unpaid dividends as of the repurchase date. The Company has the option whether or not to agree to the repurchase. In the event the Company fails to repurchase or payment of Series B-1 dividends is six quarters in arrears, the post-split conversion price shall decrease to $0.595, and in addition, until such failure or arrearage is cured, the dividend rate will increase to 18% and the majority holders of Series B-1 preferred stock have the right to elect the majority of the board of directors, At September 30, 2014 dividends on the Series B-1 were two quarters in arrears.

Warrants - Each warrant issued together with the Series B-1 preferred entitles the holder to acquire one share of $.001 par value common stock at a post-split exercise price of $1 per common share, and expires on the earlier of March 31, 2016 or such date after September 30, 2013 at which i) the common stock is listed on the OTCBB and ii) the shares to be acquired by exercise of the warrants have been registered under the Securities Act of 1933, for 60 consecutive days. If the Company subdivides or combines its common stock, issues or pays the holders of common stock, or take a record of the holders of common stock for the purpose of entitling them to receive a dividend payable in or distribution of common stock, the number of shares of common stock purchasable upon exercise of the warrant and the warrant price shall be proportionally adjusted.

Because the warrants were issued in conjunction with the Series B-1 preferred stock, the proceeds of the offering are allocated between the Series B-1 preferred and the warrants based on the relative fair value of each instrument. The assumed value of the Series B-1 preferred was determined based on the fair value of the underlying common shares and the fair value of the warrants was valued using the Black-Scholes option pricing model. As of September 30, 2014 and December 31, 2013, the gross proceeds from sales of the Series B-1 preferred and warrants amounted to $1,338,995 and $703,105, respectively, of which $167,684 and $95,828 were allocated to the warrants, respectively. The amount allocated to warrants represents an additional dividend on the preferred shares and, due to the Company's accumulated deficit, the allocation results in an increase and decrease to additional paid-in capital and as such, there is no impact on the accompanying financial statements. During the nine months ended September 30, 2014 and 2013, $71,856 and $67,858 were reflected as a dividend as a result of these warrants, respectively.

NOTE 8. - SERIES B-1 CONVERTIBLE PREFERRED STOCK (CONTINUED)

Registration rights - In connection with the Series B-1 preferred stock subscription agreement, the Company agreed to pay subscribers 1/2% of the liquidation preference of shares held by subscribers each month on beginning on dates varying between July 2013 and June 2015 until i) the common shares are eligible for trading on the OTCBB and ii) the common shares issuable upon conversion of the shares shall be registered under the Securities Act of 1933 or the subscriber is able to sell such common shares under Rule 144. Because the transfer of consideration is probable and reasonably estimable at inception of the arrangement, the contingent liability related to registration rights will be included in the allocation of proceeds in accordance with GAAP.

During the nine months ended September 30, 2014 and 2013, gross proceeds from Series B-1 preferred amounted to $635,890 and $453,120, of which $0 and $4,400 were allocated to the registration rights as a liability and a reduction of additional paid-in capital on the accompanying balance sheet. As of September 30, 2014 and December 31, 2013, the estimated liability amounted to $51,673 and $9,796, respectively, and the change in the estimated liability for the three months and nine months ended September 30, 2014 amounting to $16,504 and $41,877 respectively is included in other expense on the accompanying statement of operations. The arrangement provides for no limitation as to the maximum potential consideration to be transferred.

Beneficial Conversion Feature - The effective conversion price of the Series B-1 was at a price lower than the market price of the common stock at the date of the issuance, resulting in a non-cash beneficial conversion feature for the nine months ended September 30, 2014 and 2013 of $98,057 and $72,259, respectively. As there is an accumulated deficit, this beneficial conversion feature was immediately recognized as additional paid-in capital. The amount allocated to beneficial conversion feature represents an additional dividend on the preferred shares and, due to the Company's accumulated deficit, the allocation results in an increase and decrease to additional paid-in capital and as such, there is no impact on the accompanying financial statements.

NOTE 9. - COMMON STOCK

The following is a summary of warrants outstanding and exercisable at September 30, 2014 and 2013 and activity during the nine months then ended:

	2014		2013	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Outstanding at January 1,	2,109,364	$ 0.99	1,073,464	$ 1.00
Granted during 9 months ended September 30	908,450	$ 1.00	647,350	$ 1.00
Outstanding at September 30	3,017,814	$ 0.99	1,720,814	$ 1.00
Exercisable at September 30	3,017,814	$ 0.99	1,720,814	$ 1.00
Weighted average months remaining (Outstanding)		14.44		22.71

See Note 7 – Series B Convertible Preferred Stock and Note 8 – Series B-1 Convertible Preferred Stock related to warrants granted during the nine months ended September 30, 2014 and 2013. In addition, the Company issued 60,000 warrants to a consultant in October 2013 vesting immediately with an expiration date in October 2018 and an exercise price of $0.75 per share of underlying common stock. The Company recorded based on the fair value of the warrants granted using the Black-Scholes option pricing model and amortized $9,428 into selling, general and administrative expenses as services were rendered during the nine months ended September 30, 2014.

NOTE 10. - STOCK BASED COMPENSATION

During 2006, the Board of Directors authorized the creation of a pool of 400,000 stock options to purchase shares of the Company's common stock to officers and salaried employees of the Company, member of the Board of Directors, consultants, and any other key employees as determined by the Board of Directors as an incentive to remain in the service of the Company, enhance the long-term performance of the Company, and to acquire a proprietary interest in the success of the Company. Awards of these options shall be determined by the Board of Directors or an authorized committee thereof. The right to grant options under the plan expires in 2016.

During the year ended December 31, 2008, the Board of Directors authorized the grant of stock options to an employee to purchase 199,992 post-split shares of the Company's common stock at an exercise price of $2 which would vest 25% at date of grant and 25% annually thereafter and expire on March 1, 2013. These options expired unexercised.

NOTE 10. - STOCK BASED COMPENSATION (CONTINUED)

In July 2014, the Company granted a director 60,000 five year options to purchase common stock at an exercise price of $0.725 per share. 12,000 options vested on the grant date, and 12,000 vest in each of October 2014, January 2015, April 2015 and July 2015. The value of the options was determined to be $16,962 using the Black Scholes pricing model. During the three and nine months ended September 30, 2014, $5,993 of the amount has been recognized. Unrecognized stock based compensation expense amounted to $10,969 as of September 30, 2014.

NOTE 11. - COMMITMENTS AND CONTINGENCIES

Leases - The Company leases office and warehouse space under an operating lease which expires on July 31, 2015. Rent expense for the nine months ended September 30, 2014 and 2013 amounted to $76,524 and $74,891 and the three months ended September 30, 2014 and 2013 amounted to $26,276 and $26,221, respectively.

Aggregate future minimum lease payments under the non-cancelable operating lease, including annual rent adjustments for direct expenses such as direct costs of operation, maintenance, and repairs are $26,853 for the remainder of 2014 and $62,657 for 2015. The Company has made a $12,253 security deposit included within other assets in the accompanying balance sheets as of September 30, 2014 and December 31, 2013.

In July 2014, the Company entered into an agreement to lease a new gyrotron and associated equipment from a vendor pursuant to a capital lease. The lease requires four payments aggregating $220,000, of which $40,000 is due up-front, $45,000 is due upon successful launch (anticipated in the first quarter of 2015), and $75,000 and $60,000 is due at the first and second anniversary of launch, respectively. The lease contains a $1 bargain purchase option following the completion of payments made by the Company. As of September 30, 2014, the Company paid $40,000 up-front, which is included in machinery and equipment in the accompanying balance sheet. The term of the lease begins when the equipment is commissioned at the Bensalem, Pennsylvania facility, which has not occurred as of September 30, 2014.

Claims - The Company is subject to a claim arising in the normal course of business. In the opinion of management, the amount of the ultimate liability, if any, with respect this action will not have a material adverse effect on the financial position, results of operation or cash flow of the Company.

Revenue Arrangements - During 2011, the Company leased equipment from vendors under a capital lease for 3 years and entered into an agreement to lease both pieces of equipment to a customer. Following the final lease payment, ownership of the equipment transferred to the customer. Accordingly, the cost related to the above capital lease and other equipment acquired is included in cost of revenue as related revenue is recognized. The terms of the agreement with the customer also involve the sale of non-leased equipment and allow for additional billings related to installation, integration, and training, as well as royalties related to usage of the equipment.

In accordance with Accounting for Multiple-Deliverable Revenue Arrangements (ASC 805), the significant deliverables qualify as separate units of accounting. In conjunction with the agreement, the customer could return the equipment if acceptance criteria are not met for a partial refund. ASC 805 states the amount of revenue allocable to the delivered unit or units of accounting is limited to the amount that is not contingent upon the delivery of additional items or meeting other specified performance conditions.

NOTE 11. - COMMITMENTS AND CONTINGENCIES (CONTINUED)

All of the equipment under this agreement was delivered during the year ended December 31, 2012 and customer acceptance occurred in the first quarter of 2013, at which time deferred revenue in the amount of $210,000 was recognized as revenue and customer contracts in progress in the amount of $200,000 was recognized as cost of revenue.

NOTE 12. – SUBSEQUENT EVENTS

Subsequent to September 30, 2014, the Company received proceeds of $15,750 from the sale of 450 Series B-1 preferred units at $35 per unit.

Subsequent to September 30, 2014, Gabriel Capital LP, a stockholder of the Company, lent the Company $45,000 to purchase machinery and equipment. There is no interest on the loan. This informal loan is to be repaid on October 1, 2015, or earlier to the extent the Company has cash in excess of $250,000.