

ASCENDANT SOLUTIONS, INC.



*Auditor's Report
And Consolidated Financial Statements
December 31, 2014 and 2013*



Ascendant Solutions, Inc.
December 31, 2014 and 2013

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Independent Auditor's Report

Board of Directors
Ascendant Solutions, Inc.
Dallas, Texas

We have audited the accompanying consolidated financial statements of Ascendant Solutions, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 entity's preparation and fair presentation of the consolidated 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 entity'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 consolidated financial statements.

Board of Directors
Ascendant Solutions, Inc.
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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 financial position of Ascendant Solutions, Inc. and its subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Dallas, Texas
March 5, 2015

Ascendant Solutions, Inc.
Consolidated Balance Sheets
December 31, 2014 and 2013
(000's omitted, except par value and share amounts)

	2014	2013
ASSETS		
Current Assets		
Cash	\$ 59	\$ 236
Restricted cash	251	200
Trade accounts receivable, net	1,289	1,157
Other receivables	139	328
Receivable from affiliates	59	28
Inventories, net	2,356	1,941
Prepaid expenses	200	244
Total current assets	<u>4,353</u>	<u>4,134</u>
Property and equipment, net	1,015	933
Intangible assets, net	529	-
Investments carried at cost	5,107	5,107
Deferred tax asset, net	3,000	3,000
Total assets	<u>\$ 14,004</u>	<u>\$ 13,174</u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 1,518	\$ 2,014
Notes payable, current portion	451	417
Accrued liabilities	358	352
Total current liabilities	<u>2,327</u>	<u>2,783</u>
Notes payable, long-term portion	2,760	1,939
Total liabilities	<u>5,087</u>	<u>4,722</u>
STOCKHOLDERS' EQUITY		
Stockholders' equity:		
Preferred stock, \$0.0001 par value; 7,500,000 shares authorized: none issued and outstanding		
Common stock, \$0.0001 par value; 50,000,000 shares authorized; 22,847,596 shares issued and 21,817,596 shares outstanding at December 31, 2014; 22,601,510 shares issued and 21,571,510 shares outstanding at December 31, 2013	2	2
Additional paid-in capital	60,015	59,946
Accumulated deficit	(50,703)	(51,099)
Less: treasury stock, at cost, 1,030,000 shares	(397)	(397)
Total stockholders' equity	<u>8,917</u>	<u>8,452</u>
Total liabilities and stockholders' equity	<u>\$ 14,004</u>	<u>\$ 13,174</u>

Ascendant Solutions, Inc.
Consolidated Statements of Operations
Years Ended December 31, 2014 and 2013
(000's omitted)

	2014	2013
Revenue	\$ 28,479	\$ 25,194
Cost of sales	<u>20,026</u>	<u>17,455</u>
Gross profit	<u>8,453</u>	<u>7,739</u>
Operating expenses		
Selling, general and administrative expenses	7,629	6,603
Non-cash stock compensation	13	-
Depreciation	262	272
Total operating expenses	<u>7,904</u>	<u>6,875</u>
Operating income	<u>549</u>	<u>864</u>
Dividend income	65	224
Other income	11	74
Interest expense	<u>(122)</u>	<u>(150)</u>
Income from continuing operations before income tax provision	503	1,012
Income tax provision	<u>(51)</u>	<u>(73)</u>
Income from continuing operations	<u>452</u>	<u>939</u>
Loss on sale of discontinued business, net of tax	-	(48)
Income from discontinued operations, net of tax	<u>-</u>	<u>350</u>
Net income	<u><u>\$ 452</u></u>	<u><u>\$ 1,241</u></u>

Ascendant Solutions, Inc.
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2014 and 2013
(000's omitted, except share amounts)

	Ascendant Shareholders							
	Class A		Additional Paid-in Capital	Accumulated Deficit	Treasury		Noncontrolling Interest	Total
	Shares	Amount			Shares	Amount		
Balance at January 1, 2013	25,477,931	\$ 2	\$ 59,946	\$ (52,508)	(1,030,000)	\$ (397)	\$ 168	\$ 7,211
Retirement of ASDS shares	(2,876,421)	-	-	-	-	-	-	-
Sale of minority interest	-	-	-	168	-	-	(168)	-
Net income	-	-	-	1,241	-	-	-	1,241
Balance at December 31, 2013	22,601,510	2	59,946	(51,099)	(1,030,000)	(397)	-	8,452
Stock-based compensation and related issuance of restricted stock	30,000	-	13	-	-	-	-	13
Issue stock dividend	216,086	-	56	(56)	-	-	-	-
Net income	-	-	-	452	-	-	-	452
Balance at December 31, 2014	22,847,596	\$ 2	\$ 60,015	\$ (50,703)	(1,030,000)	\$ (397)	\$ -	\$ 8,917

Ascendant Solutions, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2014 and 2013
(000's omitted)

	2014	2013
Operating Activities		
Net income	\$ 452	\$ 1,241
Loss from discontinued operations	-	(350)
Items not requiring (providing) cash		
Provision for doubtful accounts	10	6
Depreciation and amortization	262	272
Loss on sale of discontinued operation	-	48
Stock-based compensation	13	-
Changes in operating assets and liabilities:		
Accounts receivable	(194)	(38)
Inventories	(255)	(311)
Prepaid expenses and other assets	193	206
Accounts payable	(496)	174
Accrued liabilities	6	135
Net cash (used in) provided by continuing operations	(9)	1,383
Net cash provided by discontinued operations	210	153
Net cash provided by operating activities	201	1,536
Investing Activities		
Purchases of property and equipment	(281)	(136)
Cash paid in acquisitions	(217)	-
Net cash used in investing activities	(498)	(136)
Financing Activities		
Payments on notes payable	(17,387)	(18,170)
Proceeds from notes payable	17,558	16,950
Net cash provided by (used in) financing activities	171	(1,220)
Net (decrease) increase in cash	(126)	180
Cash, Beginning of Year	436	256
Cash, End of Year	\$ 310	\$ 436
Supplemental Cash Flow Information		
Cash paid for income taxes	\$ 59	\$ 58
Cash paid for interest	\$ 122	\$ 152
Notes payable incurred for insurance obligations	\$ 143	\$ 204
Financed equipment	\$ -	\$ 46
Note receivable and receivable from affiliate from operations and sale of discontinued business	\$ -	\$ 298
Reconciliation of Cash to the Consolidated Balance Sheets		
Cash	\$ 59	\$ 236
Restricted cash	251	200
Total cash	\$ 310	\$ 436

Ascendant Solutions, Inc.
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

1. Organization and Significant Accounting Policies

Description of Business

Ascendant Solutions, Inc. (“Ascendant” or the “Company”) is a value oriented investment firm focused on successfully acquiring, managing and growing community based pharmacies in the Southwest Region. Ascendant was incorporated in Delaware on August 8, 2000.

A summary of the Company’s investments at December 31, 2014, is shown in the table below:

<u>Date</u>	<u>Entity</u>	<u>Transaction Description</u>	<u>% Ownership</u>
March 2004	Dougherty’s Holdings, Inc. and subsidiaries (“DHI”)	Acquisition of retail pharmacy	100%
September 2010	ASDS of Orange County, Inc. (“ASDS”), CRESA Partners of Orange County, L.P. (“CPOC”)	Investment in tenant representation and other real estate advisory services company	100% and 10%
December 2004	Fairways Frisco, L.P.	Investment in a mixed-use real estate development	5.8%

On August 4, 2014 and September 2, 2014, DHI acquired Family Pharmacy (“Family”) located in Lewisville, Texas and Northeast Compounding Pharmacy, LP (d/b/a Thrifty Health and Compounding Pharmacy (“Thrifty”), located in Humble, Texas, respectively, for a total purchase price of \$758,000 of which \$541,000 was financed with notes payable with the remainder paid in cash funded from the revolving line of credit (see Note 9). The excess of the purchase price over the net tangible assets of \$195,000 for property, equipment and inventory of \$560,000 has been allocated to intangible assets as patient prescriptions (see Note 6). The Company’s consolidated financial statements include the operating results of each business from the date of acquisition.

On January 1, 2013, the Company sold its wholly owned subsidiary, FPG Partners, LLC (“FPG”) and the Company’s 80% interest in CRESA Capital Markets Group, L.P.

Certain transactions related to business activities are more fully described in Notes 7, 14 and 15 of these consolidated financial statements.

Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Ascendant and all subsidiaries for which the Company has a controlling financial interest. Ascendant uses the equity method of accounting to recognize investments in and income from entities where Ascendant has significant influence, but not a controlling interest. Other investments where Ascendant does not have significant influence are accounted for using the cost method of accounting. All intercompany balances and transactions have been eliminated in consolidation.

Ascendant Solutions, Inc.
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

1. Organization and Significant Accounting Policies (Continued)

Significant Accounting Policies (Continued)

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make 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. Actual results could differ from those estimates.

Concentration of Credit Risk

The Company's credit risk relates primarily to its trade accounts receivables and its receivables from affiliates, along with cash deposits maintained at financial institutions in excess of federally insured limits on interest bearing accounts. Management performs continuing evaluations of debtors' financial condition and maintains an allowance for uncollectible accounts as determined necessary.

Accounts Receivable

Receivables recorded in the financial statements represent valid claims against debtors for services rendered or other charges arising on or before the balance sheet date. Management makes estimates of the collectibility of accounts receivable. Specifically, management analyzes accounts receivable and historical bad debts, customer credit-worthiness, current economic trends, and changes in customer payment terms and collections trends when evaluating the adequacy of the allowance for doubtful accounts. Any change in the assumptions used in analyzing accounts receivable may result in additional allowances for doubtful accounts being recognized in the periods in which the change in assumptions occurs.

At December 31, 2014 and 2013, 100% of the trade accounts receivable is from retail pharmacy operations.

Inventories

Inventories consist of health care product finished goods held for resale, valued at the lower of cost, using the first-in, first-out method or market. The Company maintains an estimated reserve against inventory for excess, slow-moving, and obsolete inventory as well as inventory for which carrying value is in excess of its net realizable value.

Property and Equipment

Property and equipment is carried at cost. Depreciation and amortization are provided over the estimated useful lives of the assets (generally three to seven years) using the straight-line method. Leasehold improvements are amortized on a straight-line basis over the lesser of either the lease term or the estimated useful life of the asset.

1. Organization and Significant Accounting Policies (Continued)

Significant Accounting Policies (Continued)

Long-Lived Assets

The Company evaluates the recoverability of the carrying value of its long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

Intangible Assets

Intangible assets with finite lives are being amortized on the straight-line basis over seven years. Such assets are periodically evaluated as to the recoverability of their carrying values.

Cost Method Investments

Cost method investments represent investments in limited partnerships accounted for using the cost method of accounting. None of these investments are investments in publicly traded companies. The cost method is used because the Company does not have a controlling interest and does not have significant influence over the operations of the respective companies. Accordingly, the Company does not record its proportionate share of the income or losses generated by the limited partnerships in the consolidated statement of operations. The Company recognizes as income; dividends that are distributed from net accumulated earnings of the investees since the date of acquisition. The investments are recorded at carrying value and based on information obtained from the entities in which the Company owns these interests, management does not believe these to be impaired.

Revenue Recognition

Revenues generated by the retail pharmacy operations are reported at the estimated net realizable amounts expected to be received from individuals, third-party payors, institutional health care providers and others. The Company recognizes revenue from the sale of pharmaceutical products and retail merchandise as transactions occur and product is delivered to the customer. Revenue from product sales is recognized at the point of sale and service revenue is recognized at the time services are provided.

Revenues generated from investments in real estate transactions are recognized upon the Company's receipt of their proportionate share of funds in accordance with the contract.

Sales and similar taxes collected from clients are excluded from revenues. The obligation is included in accounts payable until the taxes are remitted to the appropriate taxing authorities.

Substantially all revenues earned during the years ended December 31, 2014 and 2013, were earned from the retail pharmacy business.

1. Organization and Significant Accounting Policies (Continued)

Significant Accounting Policies (Continued)

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, Income Taxes). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more-likely-than-not that some portion or all of a deferred tax asset will not be realized.

Tax positions are recognized if it is more-likely-than-not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more-likely-than-not means a likelihood of more than 50%; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment.

Interest and penalties on income tax related items are included within the income tax provision and are recorded in income tax expense. The Company did not incur any interest and penalties during the years ended December 31, 2014 and 2013.

With a few exceptions, the Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2010.

Advertising Expense

Advertising expense is comprised of media, agency, coupon, trade shows and other promotional expenses. Advertising expenses are charged to operations during the period incurred, except for expenses related to the development of a major commercial or media campaign that are charged to operations during the period in which the advertisement or campaign is first presented by the media. Advertising expenses totaled \$103,000 in 2014 and \$87,000 in 2013.

Treasury Stock

Common stock shares repurchased are recorded at cost. Cost of shares retired or reissued is determined using the first-in, first-out method.

Ascendant Solutions, Inc.
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

1. Organization and Significant Accounting Policies (Continued)

Significant Accounting Policies (Continued)

Stock-Based Compensation

The Company recognizes compensation expense for equity awards over the requisite service period (usually the vesting period) based on their grant date fair value. See Note 11 for additional information on stock-based compensation.

2. Trade Accounts Receivable

Trade accounts receivable consist of the following at December 31:

	2014	2013
Trade accounts receivable - retail pharmacy	\$ 1,319,000	\$ 1,183,000
Less: Allowance for doubtful accounts	<u>(30,000)</u>	<u>(26,000)</u>
	<u><u>\$ 1,289,000</u></u>	<u><u>\$ 1,157,000</u></u>

3. Inventories

Inventories consist of the following at December 31:

	2014	2013
Inventories - retail pharmacy	\$ 2,380,000	\$ 2,001,000
Less: Inventory reserves	<u>(24,000)</u>	<u>(60,000)</u>
	<u><u>\$ 2,356,000</u></u>	<u><u>\$ 1,941,000</u></u>

4. Prepaid Expenses

Prepaid expenses consist of the following at December 31:

	2014	2013
Prepaid insurance	\$ 156,000	\$ 188,000
Other prepaid expenses	<u>44,000</u>	<u>56,000</u>
	<u><u>\$ 200,000</u></u>	<u><u>\$ 244,000</u></u>

Ascendant Solutions, Inc.
Notes to Consolidated Financial Statements
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5. Property and Equipment, Net

Property and equipment, net consist of the following at December 31:

	Estimated Useful Lives	2014	2013
Computer equipment and software	3 to 5 years	\$ 1,097,000	\$ 1,006,000
Furniture, fixtures and equipment	5 to 7 years	677,000	577,000
Leasehold improvements	Life of lease (3-15 years)	1,158,000	1,086,000
		<u>2,932,000</u>	<u>2,669,000</u>
Less accumulated depreciation		<u>(1,917,000)</u>	<u>(1,736,000)</u>
		<u><u>\$ 1,015,000</u></u>	<u><u>\$ 933,000</u></u>

Depreciation expense was \$231,000 and \$272,000 for the years ended December 31, 2014 and 2013, respectively.

6. Intangible Assets, Net

Intangible assets, net consist of the following at December 31:

	Estimated Useful Lives	2014	2013
Patient prescriptions	7 years	\$ 560,000	\$ -
Less accumulated amortization		<u>(31,000)</u>	<u>-</u>
		<u><u>\$ 529,000</u></u>	<u><u>\$ -</u></u>

Amortization expense was \$31,000 and zero for the years ended December 31, 2014 and 2013, respectively.

7. CRESA Partners of Orange County, L.P.

Effective May 1, 2004, the Company acquired through ASDS all of the issued and outstanding stock of CPOC, pursuant to a Stock Purchase Agreement dated March 23, 2004, between the sole stockholder and Chairman of CPOC (the "Seller"), and ASDS for \$6.9 million, plus closing costs. CPOC is located in Newport Beach, California, and provides performance based corporate real estate advisory services to corporate clients around the United States, such as tenant representation services to commercial and industrial users of real estate.

The acquisition of CPOC assets in 2004 were accounted for using the purchase method of accounting, and the purchase price was allocated to identifiable assets, including intangible assets, and liabilities at their fair market value at the date of acquisition.

Ascendant Solutions, Inc.
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

7. CRESA Partners of Orange County, L.P. (Continued)

Pursuant to the partnership agreement, upon the payoff of the original acquisition debt by CPOC, which was paid in full on August 31, 2010, the Company's residual interest in CPOC became 10% and the principles of consolidation for financial reporting purposes were no longer satisfied. As of August 31, 2010, the Company deconsolidated the results of operations of CPOC and recognized the Company's remaining investment in CPOC at estimated fair value. The continuing investment is accounted for on the cost method of accounting as the Company does not have significant influence over CPOC. Distributions of \$65,000 and \$224,000 were recognized as dividend income during the years ended December 31, 2014 and 2013, respectively. Upon a liquidating event of CPOC under the terms of the partnership agreement, the Company would receive an amount up to its capital account balance as defined in the partnership agreement which totals \$9,347,000 and \$9,358,000 at December 31, 2014 and 2013, respectively, and share in any excess after all capital account balances are paid to all partners at 10%.

The carrying value of the investment in CPOC is \$5,106,000. The investment is accounted for under the cost method of accounting and is reviewed for impairment when evidence suggests that the Company's investment in CPOC is impaired. The investment would be written down to fair value if declines in estimated fair value of the investment were determined to be other than temporary. As of December 31, 2014, there is no evidence or indication of impairment of the investment in CPOC.

8. Accrued Liabilities

Accrued liabilities consist of the following at December 31:

	2014	2013
Accrued payroll and related costs	\$ 220,000	\$ 209,000
Accrued expenses - other	3,000	4,000
Accrued rent	66,000	74,000
Accrued property, federal, state and sales taxes	69,000	65,000
	<u>\$ 358,000</u>	<u>\$ 352,000</u>

Ascendant Solutions, Inc.
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

9. Notes Payable

Notes payable consist of the following at December 31:

	<u>2014</u>	<u>2013</u>
First National Bank Southwest Credit Facility, secured by certain retail pharmacy assets		
Revolving line of credit in the principal amount of \$3,200,000 (\$2,100,000 at December 31, 2013), interest at LIBOR plus 3.25% (3.45% at December 31, 2014) payable monthly, matures June 2015.	\$ 1,672,000	\$ 1,036,000
Cardinal Health Term Note, secured by certain retail pharmacy assets		
Term note in the principal amount of \$1,500,000 with interest payable at a bank's prime rate plus 2.75% per annum (6% at December 31, 2014), payable monthly in installments of \$17,861 plus interest, a final payment of \$446,533 plus all accrued and unpaid interest due in full on February 17, 2017.	875,000	1,090,000
Term note in the principal amount of \$305,350 with interest payable at 5.65% per annum payable in monthly installments of \$2,545 plus interest, a final payment of \$155,220 plus all accrued and unpaid interest due in full on August 10, 2019.	293,000	-
Term note in the principal amount of \$168,350 with interest payable at 5.85% per annum payable in monthly installments of \$2,004 plus interest, a final payment of \$50,356 plus all accrued and unpaid interest due in full on September 10, 2019.	160,000	-
Acquisition Notes Payable, unsecured		
Notes payable to sellers of acquired pharmacies with varying monthly payments with interest at 5.5% due through August 2017.	52,000	-
Notes Payable to a related party, secured by interest in Dougherty's Holdings, Inc. (see Note 14)	-	22,000
Insurance notes payable, secured by the respective insurance policies		
Notes payable for the Company's insurance policy premiums with varying monthly payments due through September 2015. Interest rates vary up to 3.06%	131,000	166,000
Equipment notes payable, secured by the respective equipment		
Notes payable for equipment purchased with varying monthly payments due through May 2016. Interest at 9.88%	28,000	42,000
	3,211,000	2,356,000
	(451,000)	(417,000)
Less current portion	<u>\$ 2,760,000</u>	<u>\$ 1,939,000</u>

Ascendant Solutions, Inc.
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

9. Notes Payable (Continued)

Future maturities of notes payable at December 31, 2014 are as follows:

2015	\$ 451,000
2016	1,970,000
2017	501,000
2018	54,000
2019	235,000
	<u>\$ 3,211,000</u>

On April 2, 2013, DHI or the (“Borrowers”) secured a revolving line of credit with First National Bank Southwest in the principal amount of \$2,100,000 and interest at LIBOR plus 3.25%. The principal amount was increased by \$500,000 and by an additional \$600,000, effective July 30, 2014 and December 30, 2014, respectively, in conjunction with the pharmacy acquisitions discussed in Note 1 and Note 16. The proceeds received were used to pay off the prior revolver facility with a bank in full.

The revolving line of credit is secured by the accounts receivable, inventory, and the fixed assets of the Borrowers as well as the stock of Dougherty’s Pharmacy, Inc. and includes nonfinancial and financial covenants including debt service coverage and funded debt to operating EBITDA ratios. As of December 31, 2014 the Borrowers were in compliance with these financial covenants. This revolving line of credit is scheduled to mature in June 2015; however, the Company believes this revolving line of credit will be extended with the same lender for another term of one year or greater. Accordingly, the note payable has been excluded from current liabilities in the accompanying 2014 consolidated balance sheet.

On August 10, 2014 and September 10, 2014, in conjunction with pharmacy acquisitions discussed in Note 1, DHI secured term notes payable to Cardinal Health, its primary vendor (see Note 13), and promissory notes to the sellers as described above.

10. Income Taxes

The provision for income taxes is reconciled with the federal statutory rate for the years ended December 31 is as follows:

	<u>2014</u>	<u>2013</u>
Provision computed at federal statutory rate	\$ 174,000	\$ 447,000
State income taxes, net of federal tax effect	36,000	34,000
Other permanent differences	9,000	9,000
Change in valuation allowance	(119,000)	(319,000)
Change in current year estimate and other	(49,000)	(117,000)
Federal tax credits used	-	19,000
Income tax provision	<u>\$ 51,000</u>	<u>\$ 73,000</u>

Ascendant Solutions, Inc.
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

10. Income Taxes (Continued)

Significant components of the net deferred tax assets at December 31 are as follows:

	2014	2013
Current deferred income tax assets:		
Allowance for doubtful accounts	\$ 10,000	\$ 9,000
Inventory reserves	28,000	20,000
Accrued liabilities	23,000	48,000
Net current deferred income tax assets	61,000	77,000
Valuation allowance	(61,000)	(77,000)
	<u>\$ -</u>	<u>\$ -</u>
Non-current deferred income tax assets:		
Net operating loss carryforward	\$ 14,331,000	\$ 14,533,000
Alternative minimum tax credit	216,000	176,000
Other	78,000	19,000
	<u>14,625,000</u>	<u>14,728,000</u>
Non-current deferred income tax liabilities:		
Property and equipment and intangible assets	(85,000)	(85,000)
Net non-current deferred income tax assets	14,540,000	14,643,000
Valuation allowance	(11,540,000)	(11,643,000)
Net non-current deferred income tax asset	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>

As of December 31, 2014, the Company had approximately \$216,000 of alternative minimum tax credits available to offset future federal income taxes. The credits have no expiration date. The Company also has unused operating loss carryforwards of \$42,151,000, which expire between 2020 and 2032.

The realization of the deferred tax assets, including net operating loss carryforwards, is subject to the Company's ability to generate sufficient taxable income during the periods in which the temporary differences become realizable. In evaluating whether a valuation allowance is required, management considered all available positive and negative evidence, including prior operating results, the nature and reason of any losses, the forecast of future taxable income and the dates on which any deferred tax assets are expected to expire. These assumptions require a significant amount of judgment, including estimates of future taxable income. The estimates are based on management's best judgment at the time made based on current and projected circumstances and conditions. The estimate of the realizability of the net deferred tax asset is a significant estimate that is subject to change in the near term. Management's estimate of the use of net operating losses includes the estimated gain or loss resulting from the ultimate sale of the pharmacy businesses.

Management believes that the issuance of shares of common stock pursuant to the initial public offering on November 15, 1999, caused an "ownership change" for purposes of Section 382 of the Code on such date. Consequently, the Company believes that utilization of the portion of the Company's federal net operating loss carryforwards attributable to the period prior to November 16, 1999, is limited by Section 382 of the Code. If an "ownership change" is determined to have occurred at a date after November 15, 1999, additional federal net operating loss carryforwards would be limited by Section 382 of the Code.

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10. Income Taxes (Continued)

In addition, an “ownership change” may occur in the future as a result of future changes in the ownership of the Company’s stock, including the issuance by the Company of stock in connection with the acquisition of a business by the Company. A future “ownership change” would result in Code Section 382 limiting the Company’s deduction of federal operating loss carryforwards attributable to periods before the future ownership change.

11. Stock and Share-Based Compensation

Preferred Stock

The Company has authorized preferred stock as follows:

	<u>Number of Shares</u>
Series A convertible preferred stock, \$.0001 par value	1,111,111
Series B redeemable preferred stock, \$.0001 par value	1,111,111
Series C non-voting preferred stock, \$.0001 par value	3,200,000
“Blank Check” preferred stock, \$.0001 par value	<u>2,077,778</u>
Total	<u><u>7,500,000</u></u>

No preferred stock was outstanding at December 31, 2014 or 2013.

Treasury Stock

In May 2008, the Board of Directors authorized the purchase of up to \$500,000 of the Company’s common stock. In March 2009, the Board of Directors increased the authorized purchase to \$502,000. 211,248 shares were retired during the year ended December 31, 2012. No shares were retired during 2014 or 2013.

Stock Dividend

On December 3, 2014, the Company issued a \$.0001 per share dividend to stockholders of record on December 1, 2014. Based on the number of common shares outstanding on the record date, the Company issued 216,086 new shares at a fair market value of \$56,000 which was charged to retained earnings.

Receivable from the Sale of Stock

In June 2008, the Board of Directors authorized the 2008 Management Incentive Plan (the “2008 Incentive Plan”). The 2008 Incentive Plan allowed management, through ASDS Management Group, L.P., to purchase 2,876,421 shares of newly issued common stock representing 11% of the outstanding shares for a purchase price of \$1,898,000, which was based on an aggregate assumed Company value of \$15,000,000 at that time. On September 27, 2013, the Board of Directors approved the cancellation of the 2008 Incentive Plan and the shares of common stock were returned to the Company and cancelled.

11. Stock and Share-Based Compensation (Continued)

Restricted Share Unit Incentive Plan

On November 13, 2013, the Board of Directors approved and adopted the Restricted Share Unit (“RSU”) Incentive Plan. Under the plan the Company can award RSUs to employees and non-employee directors and consultants pursuant to restricted stock agreements contingent upon continuous service. Under the restricted stock agreements, the restricted shares will vest annually over a four-year period, or such other period as the Company’s Board of Directors may approve and will be payable in cash or stock, as determined by the Board of Directors, valued at the fair market value on the grant date. For each of the years ended December 31, 2014 and 2013, the Board of Directors awarded 120,000 shares to an employee and non-employee directors with fair value of approximately \$30,000 and \$26,000, respectively, that will be amortized over four years. During 2014, non-cash compensation expense of \$13,000 was recognized of which \$7,000 represented the fair market value of 30,000 vested shares awarded in stock.

12. Employee Benefit Plan

The Company has an employee benefit plan which is subject to ERISA guidelines and contains a safe harbor match in which the Company matches 100% on the first 4% of eligible compensation that participant’s contribute and vest 100% upon contribution. For the years ended December 31, 2014 and 2013, the Company made matching contributions totaling \$109,000 and \$82,000, respectively.

13. Commitments and Contingencies

Prime Vendor Agreement

On April 10, 2012, DHI entered into agreements with Cardinal Health 110, Inc. and Cardinal Health 411, Inc. (“Cardinal Health”) for a three-year period pursuant to which DHI and its subsidiaries agreed to purchase substantially all of their prescription pharmaceutical drugs, generic and over-the-counter pharmaceutical products. The Prime Vendor Agreement amended and extended effective May 1, 2014 for a three-year period, provides for minimum annual and aggregate net purchase volumes, certain percentage participation in vendor programs, bi-monthly payment terms, pricing discounts, volume rebates and an early termination fee of \$69,474, revised from \$240,000. For the years ended December 31, 2014 and 2013, DHI purchased approximately \$17,135,000 and \$14,908,000 of its pharmaceutical products from Cardinal Health. All minimum commitments were made pursuant to these agreements during 2014 and 2013.

Operating Leases

The Company leases their pharmacy, corporate offices and certain pharmacy equipment under non-cancelable operating lease agreements. Certain leases contain renewal options and provide that the Company pay taxes, insurance, maintenance and other operating expenses. Total rent expense for operating leases was approximately \$865,000 and \$711,000 for the years ending December 31, 2014 and 2013, respectively.

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13. Commitments and Contingencies (Continued)

Minimum lease payments under all non-cancelable operating lease agreements for the years ended December 31, are as follows:

2015	\$ 496,000
2016	500,000
2017	504,000
2018	472,000
2019	150,000
Thereafter	245,000
	<u>\$ 2,367,000</u>

Guarantee

The Company is a co-guarantor on a related party's promissory note with a bank in the amount of \$2,024,800. The borrower has secured the loan with collateral. On February 13, 2013, the lender renegotiated the terms of the promissory note with the borrower which included a requirement for the Company to provide assignments of deposits totaling \$200,000 during 2013, \$50,000 during 2014 and a pledge of \$50,000 during 2015 as additional collateral. These deposits are recorded in restricted cash on the accompanying 2014 consolidated balance sheet. The Company's guarantee is in effect through maturity of the note in July 2015 or an extended maturity date should the loan be extended. Should the Company be obligated to perform under the guarantee agreement, the Company may seek recourse from the related party in the form of additional ownership of CPOC. No liability has been recorded as of December 31, 2014 or 2013, related to this guarantee.

Legal Proceedings

The Company is occasionally involved in other claims and proceedings, which are incidental to its business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company.

14. Related Party Transactions

In May 2011, the 6% minority interest in DHI was repurchased from a shareholder for \$300,000 with cash and a note payable in the amount of \$150,000 to be paid over 36 months commencing on June 1, 2011. The balance of the note payable outstanding at December 31, 2014 and 2013 totaled zero and \$22,000, respectively.

The Company's Chairman and one of the Company's directors are limited partners in the entity that owns and controls the building in which the Ascendant and DHI corporate offices are located. Ascendant and DHI share office space with the Company's Chairman, located in the same building. Ascendant remits monthly rent of approximately \$5,200 and certain shared office costs of approximately \$1,300 monthly to the entity controlled by the Company's Chairman. The Company subleases certain shared office space for approximately \$2,200 per month and pays certain operating expenses of the other entities sharing its office space and that are controlled by the Company's Chairman and records receivables due from these entities. At December 31, 2014 and 2013, the Company had receivables due from these affiliates totaling approximately \$59,000 and \$28,000, respectively. The receivables due from affiliates are classified in current assets based on the agreements with the affiliates for repayment.

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14. Related Party Transactions (Continued)

During the years ended December 31, 2014 and 2013, the Company paid fees to its directors of \$56,000 for their roles as members of the Board of Directors and its related committees. Fees paid to the Company's Chairman totaled \$120,000 and \$125,000 for management and other services provided.

ASDS Management Group, L.P.

In conjunction with the 2008 Incentive Plan, management formed ASDS Management Group, L.P. ("ASDS") with ASDS Management GP, Inc., a Texas Corporation, as the general partner, and the Company's Chairman of the Board, Chief Executive Officer and Chief Financial Officer as limited partners. ASDS issued a long-term promissory note to the Company for the purchase of 2,876,421 shares of newly issued common stock for a purchase price of \$1,898,000, which was recorded as a reduction in additional paid-in capital. On September 27, 2013, the Board of Directors approved the cancellation of the 2008 Incentive Plan and the shares of common stock were returned to the Company and cancelled.

CRESA Capital Markets Group, L.P.

In 2002, the Company formed a capital markets subsidiary, CRESA Capital Markets Group, L.P., ("Capital Markets") and entered into a licensing and co-marketing agreement with CRESA Partners LLC, a national real estate services firm. The Company's Chairman of the Board also serves as an advisor to the Board of Directors of CRESA Partners, LLC.

Capital Markets provides real estate financial advisory services and strategic real estate advisory services to corporate clients on a fee basis. These services include, but are not limited to, analysis, consulting, acquisition and/or disposition of property, capital placement and acquisition, contract negotiation and other matters related to real estate finance. Through December 31, 2012, Capital Markets was accounted for as a consolidated entity in the Company's consolidated financial statements.

The Company owned 80% of Capital Markets through its 80% ownership of ASE Investments Corporation ("ASE Investments") and its 100% ownership of Ascendant CRESA LLC, which is the 0.1% general partner in Capital Markets. ASE Investments owns the 99.9% limited partnership interest of Capital Markets. The remaining 20% of Capital Markets and ASE Investments is owned, directly or indirectly, by certain individuals who are principals in Capital Markets who are also shareholders in the Company. On January 1, 2013, the Company sold its interest to the remaining principals for \$70,000, which represented the Company's agreed upon pro rata share of advisory service fees generated during 2013, which is included in other income in the accompanying 2013 consolidated statement of operations. The Company dissolved the entities during 2014.

See also the guarantee agreement with a partner of CPOC described in Note 13.

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15. Discontinued Operations

In June, 2009, the Company formed FPG to provide funds placement and financial advisory services. In March, 2010, the Company formed Funds Placement Group, LLC (“Funds Placement”), a Delaware limited liability company and wholly owned by FPG, to operate as a broker-dealer of securities. Funds Placement is registered with the Securities and Exchange Commission under (“SEC”) Rule 15c3-3(k)(2)(i) and is a member of the Financial Industry Regulatory Authority (“FINRA”). The Company’s revenues are earned primarily from investment banking services and consulting. On January 1, 2013, the Company sold its membership interest in FPG and subsidiary to the current managing member. The Company was owed \$24,666 and received a promissory note in the amount of \$100,000 for the broker-dealer license and fixed assets. Amounts for the year ended December 31, 2013 have been reported as discontinued operations. As of December 31, 2014, the promissory note balance was \$88,000 and has recorded net of a reserve of \$64,000 for which management has determined that collection is not certain. The Company generated income from FPG during 2013 for transactions in progress prior to the sale on January 1, 2013. Balances due to the Company related to income earned at December 31, 2013 totaled \$210,000. This amount was received by the Company in 2014. The Company recorded a loss on the sale of FPG for the year ended December 31, 2013 totaling \$48,000.

Revenues and income (loss) from discontinued operations for the years ended December 31, consist of the following:

	<u>2014</u>	<u>2013</u>
Revenues	<u>\$ -</u>	<u>\$ 350,000</u>
Income from discontinued operations before income tax provision	-	350,000
Loss on sale of discontinued business	-	(48,000)
Income tax provision	-	-
Net income from discontinued operations	<u>\$ -</u>	<u>\$ 302,000</u>

16. Subsequent Events

On January 5, 2015, DHI acquired McCrory’s Pharmacy located in El Paso, Texas, for a total purchase price of \$1,965,000 of which \$1,387,000 was financed with notes payable with the remainder paid in cash funded from the revolving line of credit (see Note 9). The excess of the purchase price over the net tangible assets of \$639,000 for property, equipment and inventory of \$1,325,000 will be allocated to intangible assets as patient prescriptions.

The Company has evaluated subsequent events through March 5, 2015, the date which the financial statements were available to be issued.