Decision Diagnostics Corp.

OTC Pink Balance Sheet, Statements of Equity & Cash Flows, Footnotes to Balance Sheet

Annual Report for Period Ended December 31, 2015

The following pages present the unaudited financial statements along with Statements of Equity and Cash Flows, and the Footnotes to the Balance Sheet for Decision Diagnostics Corp., for the years ended December 31, 2015, and December 31, 2014. The financial statements have been prepared in accordance with generally accepted accounting principles.

Trading Symbol: **DECN**
CUSIP Number: **243443 108**

Decision Diagnostics Corp.
Condensed Consolidated Balance Sheets
(Unaudited)

	December 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash	$ 627,128	$ 1,750,002
Accounts receivable, net	125,287	267,492
Inventory	4,450	91,886
Prepaid expenses	1,609,175	1,581,500
Total current assets	2,366,040	3,690,881
Fixed assets:		
Specialty manufacturing equipment	260,995	16,020
	260,995	16,020
Less accumulated depreciation	-	-
Fixed assets, net	260,995	-
Other assets:		
Intellectual property	` 732,705	437,038
Total other assets	732,705	437,038
Total assets	$ 3,359,740	$ 4,127,919
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 743,243	$ 309,362
Accrued interest	-	269,036
Subscriptions payable	77,500	77,500
Notes payable and short term debt (Note 5)	1,060,175	2,192,220
Total current liabilities	1,880,918	2,848,118
Deriviative liabilities	610,316	971,352
Contingencies	245,069	245,069
Stockholders' equity (deficit):		
Preferred stock, $0.001 par value, 3,738,500 shares		
authorized, no shares issued and outstanding		
as of December 31, 2015 and December 31, 2014	-	-
Preferred series "B" stock, $0.001 par value, 2,500 shares		
authorized, 2,000 issued and outstanding		
as of December 31, 2015 and December 31, 2014	2	2
Preferred series "C" stock, $0.001 par value, 10,000 shares		
authorized, 2,610 and 2,680 shares issued and outstanding		
as of December 31, 2015 and December 31, 2014	4	2
Preferred series "D" stock, $0.001 par value, 500 shares		
authorized, no shares issued and outstanding as of		
as of December 31, 2015 and December 31, 2014	-	-
Preferred series "E" stock, $0.001 par value, 1,750,000 shares		
authorized, 687,540 and 497,906 shares issued and outstanding		
as of December 31, 2015 and December 31, 2014	688	499
Common stock, $0.001 par value, 494,995,000 shares authorized,		
58,782,484 and 43,949,741 shares issued and outstanding		
as of December 31, 2015 and December 31, 2014	58,784	43,949
Common stock unissued, 1,410,000 shares as of		
as of December 31, 2015 and December 31, 2014	1,411	1,411
Subscription receivable	(77,250)	(77,250)
Unit offering finders' fees	(321,344)	(321,344)
Additional paid-in capital	39,025,467	35,709,088
Retained (deficit)	(38,064,324)	(35,276,959)
Total stockholders' equity (deficit)	623,437	63,380
Total liabilities and stockholders' equity (deficit)	$ 3,359,740	$ 4,127,919

The accompanying Notes are an integral part of these financial statements.

Decision Diagnostics Corp.
Condensed Consolidated Statements of Operations
(Unaudited)

	Twelve Months Ended December 31,	
	2015	**2014**
Revenue	$ 514,994	$ 375,597
Cost of sales	220,957	188,121
Gross profit	294,037	187,476
Expenses:		
Advertising	-	135,158
General & administrative expenses	826,046	256,049
Consulting	146,015	145,069
Payroll expense	33,804	20,409
Professional fees	1,774,441	541,172
Total expenses	2,780,306	1,097,857
Net operating (loss)	(2,486,269)	(910,381)
Other income (expense):		
Financing costs	(16,965)	-
Interest expense, net	(281,319)	(309,815)
Settlement expense	-	(20,000)
Loss on obsolete inventory	-	(187,425)
Total other income (expense)	(298,284)	(517,240)
Taxes		
State	(2,812)	(10,737)
Net loss	$ (2,787,365)	$ (1,438,358)
Add: Dividends declared on preferred stock	-	-
Income available to common shareholders'	$ (2,787,365)	$ (1,438,358)
Weighted average number of common shares outstanding - basic and fully diluted	51,021,420	40,099,395
Net income (loss) per share - basic and fully diluted	$ (0.05)	$ (0.04)

The accompanying Notes are an integral part of these financial statements.

Decision Diagnostics Corp.
Statements of Shareholders' Equity
(Unaudited)

		Preferred "B"		Preferred "C"		Preferred "E"		Common Stock			Authorized	Subscription	Finders'		
Date	Shareholder	# Shares	Amt	# Shares	Amt	# Shs	Amt	# Shs	Amt	APIC	Unissued	Receivable	Fees	RE	Total
BALANCE, December 31, 2014		***2,000***	***2***	***2,610***	***3***	***497,906***	***499***	***43,948,741***	***43,949***	***35,709,090***	***1,410***	***(77,250)***	***(321,344)***	***(35,276,959)***	***63,380***
1/21/2015	Shares for services - R. Herskowitz					100,000	100	-	-	24,900	-	-	-	-	25,000
1/21/2015	Shares for services - Mayer & Associates					135,000	135	-	-	33,615	-	-	-	-	33,750
1/21/2015	Shares for financing costs - Alpha Credit Resources					67,860	68	-	-	16,897	-	-	-	-	16,965
1/21/2015	Shares for services							1,875,000	1,875	466,875	-	-	-	-	468,750
1/28/2015	Shares for settlement of liquidated damages							850,000	850	203,150	-	-	-	-	204,000
2/23/2015	Conversion - Alpha Credit Resources					(50,366)	(51)	705,124	705	(654)	-	-	-	-	-
	Net loss													***(1,492,536)***	***(1,492,536)***
BALANCE, March 31, 2015		***2,000***	***2***	***2,610***	***3***	***750,400***	***751***	***47,378,865***	***47,379***	***36,453,873***	***1,410***	***(77,250)***	***(321,344)***	***(36,769,495)***	***(680,691)***
5/11/2015	Note conversion-Momona Capital							235,000	235	35,015	-	-	-	-	35,250
5/12/2015	Shares for services-R. Herskowitz					30,000	30	-	-	5,670	-	-	-	-	5,700
5/12/2015	Pref e conversion-Mayer & Associates					(67,860)	(68)	950,040	950	(882)	-	-	-	-	-
5/12/2015	Note conversion- Herskowiz							950,000	950	141,550	-	-	-	-	142,500
5/21/2015	Note conversion-Momona Capital							235,000	235	35,015	-	-	-	-	35,250
6/1/2015	Note conversion-Chase Financing 401K							533,334	533	79,467	-	-	-	-	80,000
6/8/2015	Note conversion-Momona Capital							437,250	437	65,150	-	-	-	-	65,588
6/8/2015	Shares for services-St Andrews							350,000	350	62,650	-	-	-	-	63,000
6/29/2015	Note conversion-Alpha Capital Anstalt							384,537	385	57,296	-	-	-	-	57,681
	Net loss													***(471,951)***	***(471,951)***
BALANCE, June 30, 2015		***2,000***	***2***	***2,610***	***3***	***712,540***	***713***	***51,454,026***	***51,454***	***36,934,804***	***1,410***	***(77,250)***	***(321,344)***	***(37,241,446)***	***(667,674)***
7/27/2015	Note conversion-Alpha Capital Anstalt							387,907	388	46,161	-	-	-	-	46,549
7/27/2015	New Issuance-Chase Financing					*75,000*	*75*	-	-	*8,925*	-	-	-	-	9,000
8/24/2015	Note conversion-Alpha Capital Anstalt							313,022	313	34,119	-	-	-	-	34,432
9/16/2015	Pref e conversion-Mayer & Associates					(135,000)	(135)	1,890,000	1,890	(1,755)	-	-	-	-	-
9/16/2015	Pref e conversion-R Herskowitz					*(100,000)*	(100)	1,400,000	1,400	(1,300)	-	-	-	-	-
9/16/2015	New Issuance-Chase Financing					*135,000*	*135*	-	-	*17,415*	-	-	-	-	17,550
10/27/2015	Note conversion-Alpha Capital Anstalt							479,489	479	85,358	-	-	-	-	85,838
11/30/2015	Note conversion-Navesink Device Initiatives SPV II, LLC			*1,475*	*1*			-	-	*1,392,954*	-	-	-	-	1,392,955
12/2/2015	Note conversion-Alpha Capital Anstalt							950,545	951	169,216	-	-	-	-	170,166
12/15/2015	Note conversion-Alpha Capital Anstalt							950,545	951	169,216	-	-	-	-	170,166
12/21/2015	Note conversion-Alpha Capital Anstalt							956,950	957	170,356	-	-	-	-	171,313
	Net loss													***(822,878)***	***(822,878)***
BALANCE, December 31, 2015		***2,000***	***2***	***4,085***	***4***	***687,540***	***688***	***58,782,484***	***58,782***	***39,025,468***	***1,410***	***(77,250)***	***(321,344)***	***(38,064,324)***	***623,437***

Decision Diagnostics Corp.
Consolidated Statements of Cash Flows
(Unaudited)

	Twelve Months Ended December 31,	
	2015	2014
Cash flows from operating activities		
Net loss	$ (2,787,365)	$ (1,438,358)
Adjustments to reconcile net loss to		
net cash (used) by operating activities:		
Loss on writedown of obsolete inventory	-	187,425
Interest expense - original issue discount	15,995	
Shares and options issued for services	622,750	237,750
Shares issued for financing fees	16,965	-
Changes in operating assets and liabilities		
Accounts receivable	142,204	(124,001)
Inventory	87,437	66,883
Prepaid and other assets	(27,675)	(115,465)
Accounts payable and accrued liabilities	453,926	(31,698)
Accrued interest	235,865	182,965
Net cash (used) by operating activities	(1,239,898)	(1,034,499)
Cash flows from investing activities		
Fixed assets	(244,975)	-
Intellectual property	(295,667)	(186,401)
Net cash (used) by investing activities	(540,642)	(186,401)
Cash flows from financing activities		
Proceeds from notes payable	657,666	797,210
Subscriptions receivable	-	91,500
Net cash provided by financing activities	657,666	888,710
Net decrease in cash	(1,122,874)	(332,190)
Cash - beginning	1,750,002	2,518,029
Cash - ending	$ 627,128	$ 2,185,839
Supplemental disclosures:		
Interest paid	$ -	$ -
Income taxes paid	$ 2,812	$ -
Non-cash transactions:		
Shares and options issued for services	$ 622,750	$ 237,750
Shares issued for financing activities	$ 16,965	$ -
Shares issued for debt and derivative liabilities	$ 2,669,111	$ -

The accompanying Notes are an integral part of these financial statements.

DECISION DIAGNOSTICS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

NOTE 1 – Basis of presentation and accounting policies

Organization

We were organized July 6, 2000 under the laws of the State of Nevada. As a part our efforts to transition the company toward a full service and vertically integrated provider of at-home diagnostics, on November 1, 2011, as a condition of the acquisition of Diagnostics Newco, LLC, from its sole owner, the company completed a name change action through the office of Nevada Secretary of State (NVSOS). The surviving entity is known as Decision Diagnostics Corp. This action through the office of the NVSOS was effective as of November 25, 2011.

As part our efforts to secure a listing on a new stock exchange, we completed another action with the NVSOS, where a previously approved board resolution to reverse split our shares was finalized. Our stock was split whereby one new share of the company's common stock was exchanged for every fourteen previously issued and outstanding shares of our $.001 par value common stock. This action was effective as of November 25, 2011. All share references included herein have been retroactively restated to reflect the 1:14 reverse split.

Principles of Consolidation

The financial statements include those of: Decision Diagnostics Corp. ("Decision Diagnostics"); and its super-majority owned subsidiaries, PDA Services, Inc. Pharmtech Direct Corp., Pharmatech Solutions, Inc. and Decision IT Corp. All significant inter-company transactions and balances have been eliminated. Decision Diagnostics and its subsidiaries are collectively referred to herein as the "Company". Investments in unconsolidated subsidiaries representing ownership of at least 20% but less than 50% are accounted for under the equity method. Non-marketable investments in which the Company has less than 20% ownership and in which it does not have the ability to exercise significant influence over the investee are initially recorded at cost and periodically reviewed for impairment. As of December 31, 2015 and 2014, we did not have non-marketable investments.

Cash and cash equivalents

Cash and cash equivalents include all cash balances in non-interest bearing accounts and money-market accounts. We place our temporary cash investments with quality financial institutions. At times, such investments may be in excess of Federal Deposit Insurance Corporation (FDIC) insurance limit. We do not believe it is exposed to any significant credit risk on cash and cash equivalents. For the purpose of the statements of cash flows, all highly liquid investments with an original maturity of three months or less are considered to be cash equivalents. There are no cash equivalents as of December 31, 2015 and 2014.

Credit Risks

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At December 31, 2015 we had a balances of $300,000 and $334,005 in two accounts, which exceeded the FDIC insured limit.

Accounts receivable and Allowance for Doubtful Accounts Receivable

Trade accounts receivables are non-interest bearing and are stated at gross invoice amounts less an allowance for doubtful accounts receivable.

Credit is extended to customers based on an evaluation of their financial condition and other factors. The Company generally does not require collateral or other security to support accounts receivable. The Company performs ongoing credit evaluations of its customers and maintains an allowance for doubtful accounts.

The Company estimates its allowance for doubtful accounts by evaluating specific accounts where information indicates the customers may have an inability to meet financial obligations, such as bankruptcy proceedings and receivable amounts outstanding for an extended period beyond contractual terms. In these cases, the Company uses assumptions and judgment, based on the best available facts and circumstances, to either record a specific allowance against these customer balances or to write off the balances. In addition, the Company calculates an overall reserve based on a percentage of the overall gross accounts receivable. This percentage is based on management's assessment of the aging of accounts receivable, historical write-offs of receivables and the associated risk profile of the Company's customer base.

Revenue recognition

We recognize revenue in accordance with ASC subtopic 605-10 (formerly SEC Staff Accounting Bulletin No. 104 and 13A, "Revenue Recognition") net of expected cancellations and allowances. As of December 31, 2015 and 2014, we evaluated evidence of cancellation in order to make a reliable estimate and determined there were no material cancellations during the years and therefore no allowances has been made.

We recognize revenue from our sales of pharmaceutical supplies upon delivery to its customer where the fee is fixed or determinable, and collectability is probable. Cash payments received in advance are recorded as deferred revenue. We are not generally obligated to accept returns, except for defective products, or should FDA or Medicare regulations change after delivery is made.

Revenue from proprietary software sales that does not require further commitment from the company is recognized upon shipment. Consulting revenue is recognized when the services are rendered. License revenue is recognized ratably over the term of the license.

Advertising costs

We expense all costs of advertising as incurred. Advertising costs of $0 and $0 were included in general and administrative expenses as of December 31, 2015 and 2014, respectively. Television advertising has been treated as professional expense.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates. As of December 31, 2015 and 2014, we have accrued contingent legal fees and product liability fees totaling $245,069 and $245,069, respectively.

Fair value of financial instruments

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of December 31, 2015 and 2014. The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments include cash, accounts receivable, accounts payable, accrued liabilities and notes payable. Fair values were assumed to approximate carrying values because they are short term in nature and their carrying amounts approximate fair values or they are payable on demand.

Impairment of long-lived assets

The Company reviews its long-lived assets and intangibles periodically to determine potential impairment by comparing the carrying value of the long-lived assets with the estimated future cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future cash flows be less than the carrying value, the Company would recognize an impairment loss. An impairment loss would be measured by comparing the amount by which the carrying value exceeds the fair value of the long-lived assets and intangibles. The Company recognized no impairment losses during the years ended December 31, 2015 and 2014.

Earnings per share

Earnings per share are provided in accordance with ASC Topic 260 “Earnings per Share” (as amended). The Company presents basic earnings per share (“EPS”) and diluted EPS on the face of consolidated statements of operations. Basic EPS is computed by dividing reported earnings by the weighted average shares outstanding. Diluted EPS is computed by adding to the weighted average shares the dilutive effect if stock options and warrants were exercised into common stock. Basic loss per share is computed by dividing losses available to common stockholders by the weighted average number of common shares outstanding during the period. Basic earnings per common share are based on the weighted average number of common shares outstanding during the year. Diluted earnings per share is based on the weighted average number of common shares, plus all stock options and warrants convertible into common stock for an additional 8,614,286 common shares; and all preferred stock (issued or authorized and unissued) converted into common stock for an additional 48,620,200 common shares. Most of the Company’s authorized Preferred shares remain unissued.

Income Taxes

The Company follows ASC subtopic 740-10 (formerly Statement of Financial Accounting Standard No. 109, "Accounting for Income Taxes") for recording the provision for income taxes. ASC 740-10 requires the use of the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are computed based upon the difference between the financial statement and income tax basis of assets and liabilities using the enacted marginal tax rate applicable when the related asset or liability is expected to be realized or settled. Deferred income tax expenses or benefits are based on the changes in the asset or liability each period. If available evidence suggests that it is more likely than not that some portion or all of the deferred tax assets will not be realized, a valuation allowance is required to reduce the deferred tax assets to the amount that is more likely than not to be realized. Future changes in such valuation allowance are included in the provision for deferred income taxes in the period of change.

Deferred income taxes may arise from temporary differences resulting from income and expense items reported for financial accounting and tax purposes in different periods. Deferred taxes are classified as current or non-current, depending on the classification of assets and liabilities to which they relate. Deferred taxes arising from temporary differences that are not related to an asset or liability are classified as current or non-current depending on the periods in which the temporary differences are expected to reverse.

Concentrations

In 2015, three customers accounted for approximately 80% of net sales compared to three customers accounting for approximately 79% of net sales in 2014. Historically the Company's operations require maintaining strategic relationships with customers whereby delivering product and services directly to the patient base that underlies strategic relationships, accepting assignment of insurance benefit through a series of strategic partnerships with licensed pharmacies for the billing and future servicing of these patients. We also maintain relationships with the entities where the patients reside. As of December 31, 2015 and 2014, we obtained the majority of our pharmaceutical products from five major suppliers. There can be no assurance that our major customers will continue to purchase products. The loss of our largest customers or a decrease in product sales would have a material adverse effect on our business and financial condition.

Reclassifications

Certain reclassifications have been made to the prior years' financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or retained earnings.

Recent Accounting Pronouncements

Management has analyzed all pronouncements issued during the year ended December 31, 2015 by the FASB or other authoritative accounting standards groups with future effective dates, and have determined that they are not applicable or are not expected to be significant to the financial statements of the Company.

Previous year financial information has been presented to conform to current year financial statement presentation.

Year-end

We have adopted December 31 as our fiscal year end.

NOTE 2 – Going concern

The accompanying consolidated financial statements have been prepared assuming that we will continue as a going concern. Our ability to continue as a going concern is dependent upon attaining profitable operations based on the development of distributions platforms through which our products that can be sold. We intend to use borrowings and security sales to mitigate the effects of our cash position, however, no assurance can be given that debt or equity financing, if required, will be available. The condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and classification of liabilities that might be necessary should we be unable to continue in existence.

NOTE 3 – Discontinued operations

On July 1, 2013, we determined to cease operations as a distributor of brand name diabetic test strips in order to focus solely on the production and distribution of the Genstrip product line. Accordingly, we recorded net liabilities from discontinued operations of $0 and $215,945 and net losses due to discontinued operations of $1,291,421 and $3,065,764 for fiscal 2013 and 2012, respectively.

The following table presents summarized operating results for these discontinued operations for the fiscal years ended 2013 and 2012.

		2013		**2012**
Revenue	$	761,508	$	6,197,691
Cost of goods sold		(756,213)		(4,674,546)
General & administrative		(1,296,716)		(4,588,909)
Net loss due to discontinued operations	$	(1,291,421)	$	(3,065,764)

Components of liabilities from discontinued operations consist of the following as of December 31, 2013 and 2012:

		2013		**2012**
Accounts payable and accrued liabilities		-		215,945
Net liabilities from discontinued operations	$	-	$	215,945

At December 31, 2013, net liabilities from discontinued operations were classified as current based on the disposition date occurring within one year from the respective balance sheet date.

NOTE 4 – Fair value

Our financial instruments consist principally of notes payable and lines of credit. Notes payable and lines of credit are financial liabilities with carrying values that approximate fair value. Management determines the fair value of notes payable and lines of credit based on the effective yields of similar obligations and believe all of the financial instruments' recorded values approximate fair market value because of their nature and respective durations.

We comply with the provisions of ASC 820, *"Fair Value Measurements and Disclosures"* ("ASC 820"). ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements required under other accounting pronouncements. ASC 820-10-35, *"Fair Value Measurements and Disclosures - Subsequent Measurement"* ("ASC 820-10-35"), clarifies that fair value is an exit price, representing the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820-10-35 also requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best information available. Assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and/or the risks inherent in the inputs to the model. The Company also follows ASC 825 *"Interim Disclosures about Fair Value of Financial Instruments"*, to expand required disclosures.

ASC 820-10-35 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820-10-35 are described below:

Level 1. Valuations based on quoted prices in active markets for identical assets or liabilities that an entity has the ability to access.

Level 2. Valuations based on quoted prices for similar assets or liabilities, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.

Level 3. Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company utilizes the best available information in measuring fair value. The following table summarizes, by level within the fair value hierarchy, the financial assets and liabilities recorded at fair value on a recurring basis as of December 31, 2015 and 2014:

	FYE 2015 Fair Value Measurements			
	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Intellectual property	$ -	$ -	$ 732,705	$ 732,705
Liabilities	-	-	-	-
Notes payable	-	(1,060,175)	-	(1,060,175)
Total	$ -	$ (1,060,175)	$ 732,705	$ (327,470)

	FYE 2014 Fair Value Measurements			
	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Intellectual property	$ -	$ -	$ 437,038	$ 437,038
Liabilities	-	-	-	-
Notes payable	-	(2,192,220)	-	(2,192,220)
Total	$ -	$ (2,192,220)	$ 437,038	$ (1,755,182)

NOTE 5 – Equipment – Specialty Manufacturing Instruments

On June 1, 2015 the company entered into a wide-ranging manufacturing and product development agreement with a large venture funded Korean concern. On July 8, 2015 the company enhanced its role in this agreement through the purchase of and investment in computer controlled, specialty manufacturing equipment that is now located in the Korean facility of the Company's R&D and contract manufacturing partner. The company completed this purchase through a $250,000 derivative financing lead by Alpha Credit Anstalt. The company expects to begin regular shipments in the second quarter 2016, although the products are commercially available as of March 31, 2016.

NOTE 6 – Patents

During the first quarter, 2015, we acquired two patents, U.S. Patent 6,153,069 Apparatus for Amerometric Diagnostic Analysis and 6,413,411 Method and Apparatus for Amperometric Diagnostic Analysis, for cash totaling $250,000.

NOTE 7 – Acquisition of Certain Properties

In March 2014 the Company agreed to acquire certain properties from Shasta Technologies LLC. The agreement covering this acquisition is now the subject of two litigations, one litigation related to the remaining proceeds of an IP defense insurance policy, the other litigation concerning damages the company is trying to collect from Shasta Technologies LLC owing to Shasta's subsequent undisclosed issues with the U.S. FDA. The original purchase price for this property was expected to be $2,000,000 (cash). The company is anticipating offsets much higher than the assets purchase price. The Company has not yet recorded this acquisition on its books because the acquisition terms have not yet been fully determined and the final acquisition price to be determined by the court. The company did register this FDA cleared product with the US FDA in 2014 and 2015 and plans on re-registering the product again in 2016.

NOTE 8 – Notes payable

Notes payable consisted of the following as of December 31 2015 and 2014:

	December 31, 2015	December 31, 2014
Convertible promissory notes, secured, bearing interest at a 14% per annum, due various dates in FY2016	$ 1,060,175	$ 2,192,220
Total notes payable	$ 1,060,175	$ 2,192,220

During the year ended 2015, we were loaned $657,666 of convertible debt from an un-related entity. The promissory notes have the same conversion rights as our other notes, bear interest at 12%-14% per annum, and are due June 30, and December 31, 2016.

On November 30, 2015, a noteholder elected to convert $1,392,955 of debt into 1,475 shares of our Preferred Series "C" stock, which are convertible into 7,375,000 shares of our $0.001 par value common stock.

During the quarter ended December 31, 2015, we issued 3,337,529 shares of $0.001 par value common stock to convert $597,483 of debt to equity at the election of the noteholder.

We have recorded interest in connection with our notes payable totaling $281,319 and $309,815 for the years ended December 31, 2015 and 2014, respectively.

NOTE 9 – Income taxes

At December 31, 2015, the Company had approximately $38,000,000 of federal and state net operating losses. For the years ended December 31, 2015 and 2014, the Company reported net losses of $2,787,365 and $1,438,358, respectively. No provision for income tax expense has been recorded. In addition no benefit for income taxes has been recorded due to the uncertainty of the realization of any tax assets. The net operating loss carry forwards, if not utilized will begin to expire in 2017-2024.

The components of the Company's deferred tax asset are as follows:

	As of December 31, 2014	**2015**
Deferred tax assets:		
Net loss	$ 2,787,365	$ 1,438,358
Less: Stock, options, and warrants issued	(622,750)	(237,750)
Taxable loss	2,164,615	1,200,608
Net operating loss carry forwards	26,762,702	25,562,094
Total deferred tax asset	28,927,317	26,762,702
Income tax rate	35%	35%
	10,124,561	9,366,946
Less: valuation allowance	(10,124,561)	(9,366,946)
Net deferred tax asset	$ -0-	$ -0-

For financial reporting purposes, the Company has incurred historical losses. Based on the available objective evidence, including the Company's history of its loss, management believes it is more likely than not that, the net deferred tax assets will not be fully realizable. Accordingly, the Company provided for a full valuation allowance against its net deferred tax assets at December 31, 2015 and 2014.

A reconciliation between the amounts of income tax benefit determined by applying the applicable U.S. and State statutory income tax rate to pre-tax loss is as follows:

	Years Ended December 31,	
	2015	**2014**
Federal and state statutory rate	35%	35%
Change in valuation allowance on deferred tax assets	(35%)	(35%)
	-0-	-0-

NOTE 10 – Stockholder's equity

We are authorized to issue up to 494,950,000 shares of $0.001 par value common stock and 5,000,000 shares of various classes of $0.01 par value preferred stock. In March of 2011, we amended our preferred stock designations as follows: 1) withdrawal of Series "A" designation on 750,000 shares of preferred stock, 2) Amendment of Series "C" designation on to 10,000 shares of preferred stock, 3) Designation of Series "B" on 2,500 shares of preferred stock, 4) Designation of Series "D" on 500 shares of preferred stock and 5) increased the number of preferred shares designated as Series "E" from 1,000,000 to 1,250,000. All presentation of preferred stock contained herein has been retroactively presented to reflect the designations and amendments.

Series "B" convertible preferred stock

We have designated 2,500 shares of our $0.001 preferred stock as Series "B". Holders of series "B": convertible stock shall not have the right to vote on matters that come before the shareholders. Series "B" convertible preferred stock may be converted, the number of shares into which one share of Series "B" Preferred Stock shall be convertible into common stock shares shall be 15,000. Series "B" convertible stock shall rank senior to common stock in the event of liquidation. Holders' of Series "B" convertible stock shall not be entitled to a mandatory monthly dividend. Series "B" convertible stock shall have a redemptions price equal to 101% of the purchase price per share, subject to adjustments resulting from stock splits, recapitalization, or share combination.

Series "C" convertible preferred stock

We have designated 10,000 shares of our $0.001 preferred stock as 2011 Series "C". Each share of 2011 Series C Preferred stock is valued at $10,000. Holders of series "C": convertible stock shall not have the right to vote on matters that come before the shareholders. 2011 Series "C" convertible preferred stock may be converted after 36 months, but not before, the number of shares into which one share of 2011 Series "C" Preferred Stock shall be convertible on a pro-rata basis into common stock shares, each share of common stock valued at $.20. 2011 Series "C" convertible stock shall rank junior to all other classes

of Preferred stock in the event of liquidation. Holders of 2011 Series "C" convertible stock shall not be entitled to a mandatory monthly dividend.

Series "D" convertible preferred stock

We have designated 500 shares of our $0.001 preferred stock as 2012 Series "D". We have not issued any shares of this issue of Preferred stock. Holders of series "D": convertible stock shall not have the right to vote on matters that come before the shareholders. 2012 Series "D" convertible preferred stock may be converted immediately upon distribution. The number of shares into which one share of 2012 Series "D" Preferred Stock shall be convertible into common stock shares is 1 for 120,000 shares of $0.001 par value common stock. 2012 Series "D" convertible stock shall rank junior to all other classes of Preferred stock in the event of liquidation. Holders of 2012 Series "D" convertible stock shall not be entitled to a mandatory monthly dividend.

Series E convertible preferred stock

We have designated 1,250,000 shares of our $0.001 preferred stock as Series "E". Holders of series "E": convertible stock shall not have the right to vote on matters that come before the shareholders. Series "E" convertible preferred stock may be converted, the number of shares into which one share of Series "E" Preferred Stock shall be convertible into common stock shares shall be 14. Series "E" convertible stock shall rank senior to common stock in the event of liquidation. Holders' of Series "E" convertible stock shall not be entitled to a mandatory monthly dividend. Series "E" convertible stock shall have a redemptions price equal to 101% of the purchase price per share, subject to adjustments resulting from stock splits, recapitalization, or share combination.

2015 Issuances

Preferred

During the quarter ended March 31, 2015, a Holder of our preferred series "E" shares elected to convert 50,366 shares into 705,124 shares of $0.001 par value common stock.

During the quarter ended March 31, 2015, we issued 235,000 shares of preferred series "E" shares for services valued at $58,750.

During the quarter ended March 31, 2015, we issued 67,860 shares of preferred series "E" shares for financing costs valued at $16,965.

During the quarter ended June 30, 2015, we issued 30,000 shares of preferred series "E" shares for services valued at $5,700.

During the quarter ended June 30, 2015, a Holder of our preferred series "E" shares elected to convert 67,860 shares into 950,040 shares of $0.001 par value common stock.

During the quarter ended September 30, 2015, Holders of our preferred series "E" shares elected to convert 235,000 shares into 3,290,000 shares of $0.001 par value common stock.

During the quarter ended September 30, 2015, we issued 210,000 shares of preferred series "E" shares for services valued at $26,550.

During the quarter ended December 31, 2015, we issued 1,475 shares of preferred series "C" shares for convertible debt totaling $1,392,955. The 1,475 shares of preferred series "C" stock are convertible into 7,375,000 shares of our $0.001 par value common stock.

Common

During the quarter ended March 31, 2015, we issued 1,875,000 shares of $0.001 par value common stock for consulting services valued at $468,750.

During the quarter ended March 31, 2015, we issued 850,000 shares of $0.001 par value common stock for the settlement of liquidated damages due to pre-contracted terms allowing for the issuance of shares in the event certain debt covenant terms were violated. The shares were valued on date of grant at $204,000.

During the quarter ended March 31, 2015, we issued 705,124 shares of $0.001 par value common stock for 50,366 shares of previously issued and converted preferred series "E" shares.

During the quarter ended June 30, 2015, we issued 2,540,121 shares of $0.001 par value common stock for convertible debt and the settlement of liquidated damages due to pre-contracted terms allowing for the issuance of shares in the event certain debt covenant terms were violated. The shares were valued on date of grant at $381,019.

During the quarter ended June 30, 2015, we issued 350,000 shares of $0.001 par value common stock for consulting services valued at $63,000.

During the quarter ended June 30, 2015, we issued 950,040 shares of $0.001 par value common stock for 67,860 shares of previously issued and converted preferred series "E" shares.

During the quarter ended September 30, 2015, we issued 3,290,000 shares of $0.001 par value common stock for 235,000 shares of previously issued and converted preferred series "E" shares.

During the quarter ended September 30, 2015, we issued 700,929 shares of $0.001 par value common stock to convert $80,981 of debt to equity at the election of the noteholder.

During the quarter ended December 31, 2015, we issued 3,337,529 shares of $0.001 par value common stock to convert $597,483 of debt to equity at the election of the noteholder.

Subscriptions Receivable

During the year ended December 31, 2013, investors subscribed to 950,000 shares of $0.001 par value common stock for subscriptions receivable totaling $161,500.

2014 Issuances

Preferred

During the year ended December 31, 2014, the holder of the Company's preferred series "C" exchanged his shares into 350,000 shares of $0.001 par value common stock.

During the year ended December 31, 2014, the Company issued 125,000 preferred series "E" shares for services valued at $73,750.

During the year ended December 31, 2014, holders of the Company's preferred series "E" shares elected to convert 396,014 shares into 5,794,346 shares of $0.001 par value common stock.

Common

During the year ended December 31, 2014, the Company issued 400,000 shares of $0.001 par value common stock for the exercise of options and consulting services valued at $164,000.

During the year ended December 31, 2014, the Company issued 5,794,346 shares of $0.001 par value common stock for previously authorized and converted preferred series "E" shares.

NOTE 11 – Options

2004 Stock Option Plan

Effective April 21, 2004, the Company adopted the "2004" Stock Option Plan, as amended, with a maximum number of 450,893 shares that may be issued. As of December 31, 2013, 398,104 options have been granted and exercised or expired under this plan. There are 52,789 options which remain available for issuance through December 31, 2015.

2005 Merger Consolidated Stock Option Plan

On February 5, 2005, the Company adopted the "2005" Merger Consolidated Stock Option Plan. The maximum number of shares that may be issued pursuant to the plan is 80,357 shares. As of December 31, 2013, 77,307shares have been granted and exercised or expired under this plan. There are 3,050 options which remain available for issuance through December 31, 2015.

2006 Stock Option Plan

On December 8, 2006 the Company adopted the "2006 Employee Stock Option Plan, as amended and granted incentive and nonqualified stock options with rights to purchase 16,821,429 shares of $0.001 par value common stock. As of December 31, 2013, 3,691,582 options were granted and exercised or expired and 3,600,000 exercisable under this plan. There are 9,529,847 options which remain available for issuance through December 31, 2016.

2012 Stock Option Plan

On October 22, 2012, the Company adopted the "2012" Executive and Key Man/Woman Stock Option Plan and granted incentive and nonqualified stock options with rights to purchase 5,000,000 shares of $0.001 par value common stock. As of December 31, 2013, all options allowed under the plan have been granted and are exercisable at the election of the holder.

The following is a summary of activity of outstanding stock options under all Stock Option Plans:

	Number of Shares	Weighted Average Exercise Price
Balance, January 1, 2014	9,621,286	$ 0.10
Options granted	-	-
Options cancelled	-	-
Options exercised	-	-
Balance, December 31, 2014	9,621,286	$ 0.10
Balance, January 1, 2015	9,621,286	$ 0.10
Options granted	-	-
Options cancelled	-	-
Options exercised	-	-
Balance, December 31, 2015	9,621,286	$ 0.10

NOTE 12 – Warrants

The following is a summary of activity of outstanding warrants:

	Number of Shares	Weighted Average Exercise Price
Balance, January 1, 2014	2,017,495	$ 0.65
Warrants granted	585,648	0.27
Warrants cancelled	-	-
Warrants exercised	-	-
Balance, December 31, 2014	2,603,143	$ 0.56
Balance, January 1, 2015	2,603,143	$ 0.56
Warrants granted	-	-
Warrants cancelled	-	-
Warrants exercised	-	-
Balance, December 31, 2015	2,603,143	$ 0.56

NOTE 13 – Commitments and Contingencies

Leases

We currently maintain an executive office at 2660 Townsgate Road, Suite 300, Westlake Village, CA 91361. The space consists of approximately 2,300 square feet. The monthly rental for the space is $2,170 per month on a month-to-month basis.

Rent expense totaled $26,040 and $27,140 for the years ended December 31, 2015 and 2014, respectively.

Contingencies and Litigation

The Company transacts commerce in several medical products market channels. They also transact commerce by licensing our proprietary medical software that functions by moving confidential medical data through our proprietary medical information technology devices and networks. The Company's GenStrip 50 and GenUltimate! products required initial regulatory approval by the USFDA as well as on-going USFDA approvals during the product life cycle.

Further, these products required medical patient trials and competes directly with a major platform manufacturer. Healthcare, especially those segments where the company competes, is a very litigious. Competing companies often use litigation as a marketing tool, bringing litigation as a means to protect market share and limit market exposure. The Company has in the past (and currently) defended cases brought by Plaintiffs asserting these types of claims.

The medical industry is also intertwined. From time to time, the Company has become involved in claims and litigation that arise out of the normal course of business, such as litigation that emerges from disputes over damaged, missing or contaminated product, litigation that arises over payment disputes or claims of fair value. They have defended cases of this nature. For instance, the Company has have been sued in several jurisdictions over a single business transaction. Often these cases involve substantial over-prosecution where the company and its directors have been held accountable by Plaintiffs for a myriad of things including words written or posted in public forums by anonymous persons.

The Company may also become involved in disputes that arise over the business or business practices of their suppliers, payers and customers, people or entities that the Company may not be familiar with. The company maintains substantial insurance coverage against suits that may arise over issues of damaged, recalled or counterfeit product and other product liability issues. The company has also been a victim of the unapproved acts of prior management. These acts have resulted in claims from individuals and entities since the Board relieved former management of duty in 2006. Nonetheless, these claims have resulted in the use of management time and company resources to investigate, litigate, or settle. In addition, the company accrues contingent legal fees and product liability fees. As of December 31, 2015, our accrual was $245,069.

From time to time, the company may also be subject to demands from individuals or entities. These demands and disputes may consume management time and company resources. Other than as noted below, if there is such a disclosure, there are no pending matters at the current time that in management's judgment may be considered material or potentially material.

NOTE 14 – Subsequent events

During January 2016 the Company signed a hybrid contingency fee agreement with Fox, Rothschild, the law firm that had successfully defended the Company in the suits brought by J&J/Lifescan. The Company entered into this fee agreement for the purposes of bringing suit against J&J and several of its divisions for their infringements of the Company's patents. The Company has asked for $400-$700 million in damages. Suit was filed in the Federal District Court of Nevada on March 14, 2016. The Company intends to add additional defendants to this lawsuit during the month of April 2016.

During February 2016, a noteholder converted $365,995 of debt into 2,585,228 shares of $0.001 par value common stock.

Also during February 2016, the company accepted a subscription from a current investor, through one of his investment companies, Paradigm Capital Holdings, LLC. This investment was subscribed to for $3,500,000 in the Company's Preferred C shares. The Company is currently collecting this subscription.

On March 17, 2016 the Company completed internal testing on the first Korean-made product and reviewed and approved the Korean Quality Plans. The Company intends to do a complete 3rd Party inspection of the Korean facility later in April 2016 for the purposes of providing the date of implementation (of the Quality Plan) required by regulatory bodies.

On March 25, 2015 the Company agreed to market additional products manufactured by the Korean entity for the veterinary testing market, and to introduce and/or manage retail sourcing for a line of Korean manufactured pet foods and vitamins.

In accordance with ASC 855, management evaluated all activity of the Company through the issue date of the financial statements and concluded that no other subsequent events have occurred that would require recognition or disclosure in the financial statements.