RBC Life Sciences, Inc. and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2015 and 2014

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LANE GORMAN TRUBITT PLLC
Accountants & Advisors

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
RBC Life Sciences, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of RBC Life Sciences, Inc. and Subsidiaries (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2015. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of RBC Life Sciences, Inc. and Subsidiaries as of December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

LANE GORMAN TRUBITT, PLLC

Dallas, Texas
April 14, 2016

RBC Life Sciences, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

December 31,	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,449,825	$ 1,921,349
Accounts receivable, net of allowance for doubtful accounts of $36,180 and $35,219, respectively	1,216,770	1,285,843
Inventories	4,280,570	4,799,083
Deferred income taxes	377,834	376,925
Prepaid expenses and other current assets	464,173	464,020
Total current assets	7,789,172	8,847,220
Property and equipment, net	1,237,363	4,683,496
Goodwill, net	2,145,319	2,221,347
Other intangible assets, net	26,064	39,975
Other assets	97,788	203,906
	$ 11,295,706	$ 15,995,944
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable, trade	$ 1,305,730	$ 2,310,192
Accrued liabilities	1,563,581	1,420,050
Current maturities of long-term obligations	-	229,538
Deferred revenue	95,170	2,147,290
Total current liabilities	2,964,481	6,107,070
Long-term obligations, less current maturites	-	906,809
Deferred income taxes	451,553	556,440
Commitments and contingencies		
Shareholders' equity		
Common stock, $0.001 par value, authorized 50,000,000 shares; 2,213,010 and 2,212,350 shares issued and outstanding in 2015 and 2014, respectively (see Note B regarding Stock Splits)	2,213	2,212
Additional paid-in capital (see Note B regarding Stock Splits)	13,714,523	13,713,630
Accumulated deficit	(6,158,931)	(5,417,092)
Accumulated other comprehensive income	321,867	126,875
	7,879,672	8,425,625
	$ 11,295,706	$ 15,995,944

The accompanying notes are an integral part of these consolidated financial statements.

RBC Life Sciences, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years Ended December 31,

	2015	2014
Net sales	$ 24,365,048	$ 28,270,448
Cost of sales	10,903,618	12,632,375
Gross profit	13,461,430	15,638,073
Operating Expenses		
General and administrative	11,283,468	10,985,637
Distributor commissions	4,187,233	4,697,802
Depreciation and amortization	502,148	579,900
Total operating expenses	15,972,849	16,263,339
Operating (loss)	(2,511,419)	(625,266)
Gain on sale of property and equipment	(1,706,818)	-
Interest expense	41,503	95,719
Loss before income taxes	(846,104)	(720,985)
Income tax benefit	(104,265)	(118,174)
Net loss	(741,839)	(602,811)
Other comprehensive income (loss):		
Foreign currency translation adjustment	194,992	12,010
Comprehensive loss	$ (546,847)	$ (590,801)
Basic loss per share	$ (0.34)	$ (0.27)
Basic weighted average shares outstanding	2,212,433	2,212,350
Diluted loss per share	$ (0.34)	$ (0.27)
Diluted weighted average shared outstanding	2,212,433	2,212,350

The accompanying notes are an integral part of these consolidated financial statements.

RBC Life Sciences, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common stock		Additional paid-in	Accumulated	Accumulated other comprehensive	Total shareholders'
	Shares	Amount	capital	deficit	income	equity
Balance at January 1, 2014	2,212,350	$ 2,212	$13,711,522	$(4,814,281)	$ 114,865	$ 9,014,318
Comprehensive income (loss)						
Net loss	-	-	-	(602,811)	-	(602,811)
Foreign currency translation adjustment	-	-	-	-	12,010	12,010
Total comprehensive loss						(590,801)
Share-based compensation	-	-	2,108	-	-	2,108
Balance at December 31, 2014	2,212,350	2,212	13,713,630	(5,417,092)	126,875	8,425,625
Comprehensive income (loss)						
Net loss	-	-	-	(741,839)	-	(741,839)
Foreign currency translation adjustment	-	-	-	-	194,992	194,992
Total comprehensive loss						(546,847)
Exercise of stock option	660	1	893	-	-	894
Balance at December 31, 2015	2,213,010	$ 2,213	$13,714,523	$(6,158,931)	$ 321,867	$ 7,879,672

The accompanying notes are an integral part of these consolidated financial statements.

RBC Life Sciences, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,

	2015	2014
Cash flows from operating activities		
Net loss	$ (741,839)	$ (602,811)
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation and amortization	502,148	579,900
Gain on sale of property and equipment	(1,706,878)	-
Deferred income taxes	(107,178)	(125,173)
Share-based compensation	-	2,108
Changes in operating assets and liabilities		
Accounts receivable	68,732	(378,667)
Inventories	473,199	317,630
Prepaid expenses and other current assets	(27,765)	288,053
Other assets	100,878	(161,606)
Accounts payable	(989,443)	709,636
Accrued liabilities	224,836	293,731
Deferred revenue	(2,048,939)	(1,530,533)
Net cash used by operating activities	(4,252,249)	(607,732)
Cash flows from investing activities		
Purchase of property and equipment	(179,950)	(1,034,747)
Purchase of intangible assets	-	(39,689)
Proceeds from sale of property and equipment	4,818,756	-
Net cash provided (used) by investing activities	4,638,806	(1,074,436)
Cash flows from financing activities		
Proceeds from exercise of common stock option	894	-
Payments of long-term obligations	(1,136,347)	(212,474)
Net cash used by financing activities	(1,135,453)	(212,474)
Effect of exchange rate changes on cash flows	277,372	70,307
Net decrease in cash and cash equivalents	(471,524)	(1,824,335)
Cash and cash equivalents at beginning of year	1,921,349	3,745,684
Cash and cash equivalents at end of year	$ 1,449,825	$ 1,921,349
Supplemental cash flow disclosures		
Interest paid	$ 42,108	$ 97,092
Income taxes paid, net	54,589	36,760

The accompanying notes are an integral part of these consolidated financial statements.

NOTE A – NATURE OF OPERATIONS AND ORGANIZATION

RBC Life Sciences, Inc. (along with its subsidiaries, sometimes hereinafter referred to collectively as "RBC" or the "Company") is principally engaged in the marketing of nutritional supplements and personal care products (collectively "Nutritional Products") through subsidiaries in North America and Southeast Asia and through licensees in Russia/Eastern Europe. This product line is marketed under the "RBC Life®" brand name. In most of these markets, the Company markets its products through a network of distributors that are referred to as "Associates." The Associates are independent contractors who purchase products for personal use, purchase products for resale to retail customers and sponsor other individuals as Associates. Accordingly, Associates may be product consumers only or they may also seek to derive compensation both from the direct sales of products and from sales generated by sponsored Associates. In certain other markets in Southeast Asia and Australia, the Company sells its products through a not-for-resale ("NFR") program. Individuals who participate in the NFR program function similarly to Associates in that they can sponsor others and derive compensation from sales generated by individuals they sponsor. However, they may only order products for personal use and may not resell products to retail customers.

RBC also markets its Nutritional Products in certain international markets through license arrangements. The licensees are third parties who are granted exclusive rights to distribute RBC products in their respective territories and, for the most part, distribute these products through an independent Associate network in the licensed territory. Under these arrangements, the independent Associate network in a licensed territory is compensated by the licensee.

In addition to its Nutritional Products, RBC also markets a line of wound care products ("Medical Products") under the MPM Medical brand name through a U.S. subsidiary. Medical Products are primarily distributed in the U.S. to hospitals, nursing homes, clinics and pharmacies through traditional medical/surgical supply dealers and pharmaceutical distributors. Medical Products are used to prevent and treat wounds, and manage pain associated with wounds, in the acute care, long-term care and oncology markets.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Reporting - The consolidated financial statements include the accounts of RBC and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. Subsequent events were evaluated through the issuance date of the financial statements.

On December 15, 2015, the Board of Directors of RBC approved a plan to terminate and suspend the registration of its common stock with the Securities and Exchange Commission (the "SEC"). In accordance with this plan, on February 12, 2016, the Company filed Form 15 with the SEC to voluntarily deregister its common stock and suspend its reporting obligations under the Securities Exchange Act of 1934, as amended. The Company is eligible to file Form 15 because there are fewer than 300 holders of record of its common stock. As a result of filing the Form 15, the Company's obligation to file certain reports and forms with the SEC, including Forms 10-K, 10-Q, and 8-K, has ceased. Other filing requirements will terminate upon the effectiveness of the deregistration, which is expected to occur 90 days after the filing of the Form 15.

Cash and Cash Equivalents - The Company regularly holds cash deposits in foreign bank accounts in connection with its foreign operations. At December 31, 2015 and 2014, $829,000 and $833,000, respectively, were held in foreign banks. For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The Company includes in its cash and cash equivalents credit card payments due from its credit card processors.

The Company maintains certain cash balances at a bank located in the U.S. which at times may exceed insured limits. The Company maintains an agreement with this bank that provides certain collateral as security against the possibility of losses in excess of insured limits. The Company has not experienced any losses with respect to these accounts and believes it is not exposed to any significant credit risk.

Accounts Receivable - The Company's accounts receivable arise in the normal course of business and primarily relate to sales of Medical Products to various businesses and individuals. Accounts receivable are generally due within 30, 45 or 60 days and are stated at amounts due from customers net of an allowance for doubtful accounts.

Accounts outstanding longer than the contractual payment term are considered to be past due. The Company determines its allowance by considering a number of factors including the length of time accounts are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company and the industry as a whole. The Company charges accounts receivable against the allowance when they become uncollectible, and any payments subsequently received on such accounts are credited to the allowance for doubtful accounts.

Inventories - Inventories consisting of raw materials and bulk products, packaging materials and finished goods are stated at the lower of cost or market. The cost of inventories is determined using the first in, first out method.

Property and Equipment - Property and equipment are recorded at cost. Depreciation and amortization are provided over the estimated useful lives of the related assets, principally on the straight-line method, ranging from three to 25 years.

Intangible Assets and Amortization - Goodwill and other intangible assets with indefinite useful lives are not amortized, but are reviewed annually for impairment or when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Intangible assets with finite lives are amortized over their useful lives. At December 31, 2015 and 2014, the Company's intangible assets with finite lives consisted of copyrights, trademarks and other registrations, a business license and other intangibles, all of which are amortized over an average life of 19 years except the business license, which is being amortized over a life of one year.

The Company has designated year end as the date of its annual goodwill impairment test. The Company tests goodwill for impairment by comparing the carrying value of a reporting unit, including goodwill, to the fair value of the unit. Fair value is determined by estimating the present value of future cash flows and the value of comparable companies based on sales multiples. An impairment loss would be recognized if the carrying value of a reporting unit exceeds the implied fair value. To date, the Company has not recognized any impairment losses related to the carrying value of its goodwill. See Note L for a discussion of the fair value assumptions used for assessing goodwill for impairment.

Impairment of Long-Lived Assets - Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Revenue Recognition and Deferred Revenue - Sales are recorded when products are shipped, which is the point the risks and rewards of ownership pass to the customer. Sales include amounts billed to customers for shipping and handling and are recorded net of sales taxes. The Company generally requires a cash or credit card payment at the point of sale for Nutritional Products sold to its Associates. With regard to orders received from its third-party licensees, the Company generally requires the licensee to make a cash deposit equal to 25% to 50% of the order at the time an order is placed, and to pay the remaining balance when the products are segregated in the Company's warehouse and ready to ship; however, sales are not recognized until the products are shipped. Deposits and payments received for unshipped products are recorded as "deferred revenue."

Prior to August 1, 2014, the Company's agreement with its principle licensee, Coral Club International, Inc. ("CCI"), provided that CCI pay to the Company a monthly royalty, which was calculated as a specified percentage of its sales, as defined, in the territory covered by the license agreement. As more fully described in Note P, in August 2014, the Company entered into a new two-year license agreement with CCI that restructured the royalty calculations. Under the new arrangement, the prices at which products are sold to CCI were marked up to include the royalty; accordingly royalties are no longer due upon sale of the products by CCI. To affect this transition, the Company recognized royalties of $941,000 on a

one-time basis, which royalties will be paid over an 18-month period beginning October 2014. Of this $941,000 in royalties, approximately $476,000 was recorded as royalty revenue in the third quarter of 2014 while the remainder was recorded as deferred revenue pending shipment of the related products. Royalty revenue earned in connection with the Company's licensee agreement in effect prior to August 1, 2014 was recorded as sales and amounted to $1,444,000 in 2014.

Distributor Commissions - Distributor commissions consist primarily of commissions paid to Associates in accordance with the Associate compensation plan. These commissions are calculated based on the total monthly sales by the Associate and his or her downline organization. Most commissions are paid to Associates monthly. Sales incentives paid to Associates that represent rebates are recorded as a reduction of sales rather than distributor commission expense. Associates can earn rebates if the amount of their personal monthly sales exceeds a threshold amount set forth under the Associate compensation plan. Associate rebates recorded as a reduction of sales were $260,000 and $324,000 in 2015 and 2014, respectively.

Income Taxes - The Company utilizes the liability method of accounting for income taxes. Under the liability method, deferred income tax assets and liabilities are provided based on the difference between the financial statement and tax bases of assets and liabilities as measured by the currently enacted tax rates in effect for the years in which these differences are expected to reverse. Deferred tax expense or benefit is the result of changes in deferred tax assets and liabilities. An allowance against deferred tax assets is recorded in whole or in part when it is more likely than not that such tax benefits will not be realized.

At December 31, 2015 and 2014, the Company had no unrecognized tax benefits. The Company’s policy is to record any interest and penalties related to gross unrecognized tax benefits within its provision for income taxes.

Earnings (Loss) Per Share - Basic earnings (loss) per common share is based upon the weighted average number of common shares outstanding during each period presented. Diluted earnings (loss) per share is based upon the weighted average number of common shares outstanding and, when dilutive, common shares issuable for stock options.

Accounting Estimates - In preparing financial statements in conformity with accounting principles generally accepted in the U.S. ("US GAAP"), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues during the reporting period. Actual results could differ from those estimates.

Financial Instruments - The carrying value of cash, interest-bearing deposits, accounts receivable and payable and accrued liabilities approximate fair value due to the short-term maturities of these assets and liabilities. Fair value of long-term debt is estimated based on interest rates for the same or similar instruments offered having the same or similar maturities and collateral requirements. On July 15, 2015, the Company completed the sale of its headquarters building and related parcel of land in Irving, Texas, and paid the outstanding mortgage debt of approximately $1.13 million. Accordingly there was no fixed-rate long-term debt outstanding at December 15, 2015. At December 31, 2014, fair value of fixed-rate long-term debt was $1,226,000, which was $90,000 above the carrying value of $1,136,000. See Note L for a discussion of the fair value assumptions used to determine the fair value of our fixed-rate long-term debt.

Segment Information - The Company’s operations involve two operating segments: the Nutritional Products segment and the Medical Products segment. Nutritional Products are developed and distributed to a network of independent Associates operating primarily in North America, Southeast Asia and Australia and to licensees operating in certain other countries. Medical Products are developed and sold primarily throughout the U.S. through medical/surgical supply dealers and pharmaceutical distributors to medical institutions such as hospitals, nursing homes and pharmacies.

Product Return Policy - Up to one year from the date of purchase, Nutritional Products that are unused and resalable may be returned by an Associate for a refund equal to 100% of the sales price to the Associate less a 10% restocking fee and commissions paid. The return of product by an Associate, other than product damaged at the time of receipt, may result in cancellation of the distributorship. Generally, unused Medical Products may be returned up to six months from date of purchase for a refund equal to 100% of the sales price less a 25% restocking fee. Returned products damaged during

shipment are replaced by the Company. Nutritional Products purchased by licensees may not be returned to the Company for a refund except in the case of a product defect.

Advertising - Advertising expense is charged to operations when incurred. Advertising expenses were $74,000 and $37,000 in 2015 and 2014, respectively.

Translation of Foreign Currencies - All assets and liabilities of foreign subsidiaries are translated into U.S. dollars at the exchange rate in effect at the consolidated balance sheet date. Revenue and expense accounts are translated at weighted average exchange rates. Translation gains and losses are reflected as a component of other comprehensive income in shareholders' equity. Gains and losses on foreign currency transactions are included in the consolidated statements of comprehensive income (loss). In 2015 and 2014, the Company recorded losses on foreign currency transactions of $283,000 and $220,000, respectively, which losses were charged to general and administrative expenses.

Other Comprehensive Income (Loss) - Other comprehensive income (loss) refers to revenues, expenses, gains and losses that under US GAAP are included in comprehensive income (loss) but are excluded from net earnings (loss) as the amounts are recorded directly as an adjustment to shareholders' equity. The Company's other comprehensive income (loss) is attributed to translation gains or losses of foreign currencies.

Share-Based Compensation - The Company recognizes share-based compensation expense based on the fair value of share-based awards. Share-based compensation is estimated at the grant date based on the fair value of the awards expected to vest and recognized as expense ratably over the requisite service period of the award. The Company uses the Black-Scholes valuation model to estimate fair value of share-based awards, which requires various assumptions including estimating stock price volatility, risk-free interest rate and expected life.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases*, that requires organizations that lease assets, referred to as "lessees", to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with lease terms of more than 12 months, ASU 2016-02 will also require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases and will include qualitative and quantitative requirements. The new standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within those annual years, and early application is permitted. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes: Balance Sheet Classification of Deferred Taxes*, that requires deferred tax liabilities and assets to be classified as noncurrent in a classified statement of financial position. ASU 2015-17 will align the presentation of deferred income tax assets and liabilities with International Financial Reporting Standards. The new standard will be effective for fiscal years beginning after December 15, 2016, including interim periods within those annual years, and early application is permitted as of the beginning of an interim or annual reporting period either prospectively or retrospectively. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory: Simplifying the Measurement of Inventory*, that requires inventory not measured using either the last in, first out (LIFO) or the retail inventory method to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable cost of completion, disposal, and transportation. The new standard will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and will be applied prospectively. Early adoption is permitted. The company is currently assessing the impact that this standard will have on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, that outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 is based on the principle that an

entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. Entities have the option of using either a full retrospective or a modified retrospective approach for the adoption of the new standard. In July 2015, the FASB approved the deferral of the effective date for annual reporting periods that begin after December 15, 2017, including interim reporting periods. Early adoption is permitted to the original effective date of December 15, 2016, including interim reporting periods. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In August 2014, FASB issued ASU No. 2014-15, *Presentation of Financial Statements – Going Concern*. ASU No. 2014-15 provides guidance regarding management's responsibility to evaluate whether there exists substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. ASU No. 2014-15 is effective for annual reporting periods beginning after December 15, 2016, and interim periods thereafter. The Company does not believe ASU No. 2014-15 will have a material effect on its financial position and results of operations.

Reclassifications – Certain prior period financial statement amounts have been reclassified to conform to current period presentation.

NOTE C – ACCOUNTS RECEIVABLE

At December 31, 2015 and 2014, accounts receivable consist of the following:

	2015	2014
Accounts Receivable		
Trade	$ 1,252,950	$ 1,321,062
Less allowance for doubtful accounts	36,180	35,219
Net accounts receivable	$ 1,216,770	$ 1,285,843

Changes in the Company's allowance for doubtful accounts for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Beginning balance	$ 35,219	$ 28,000
Bad debt provision	961	7,263
Accounts written off	-	(44)
Ending balance	$ 36,180	$ 35,219

One medical/surgical dealer accounts for a significant portion of Medical Products sales. This dealer filed a voluntary petition for protection under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the Central District of California in Santa Ana, California on February 24, 2012. In accordance with an arrangement approved by the Bankruptcy Court, the pre-petition accounts receivable balance of approximately $240,000 that was outstanding at December 31, 2013 was paid in full during 2014. In May 2015, this dealer emerged from bankruptcy following the Bankruptcy Court's confirmation of its plan of reorganization. As of December 31, 2015 and 2014, this dealer accounted for 38% and 19.5% of total accounts receivable, respectively.

As more fully described in Note P, in August 2014, the Company entered into a new two-year exclusive distributorship agreement with CCI pursuant to which the royalty calculations were restructured. Under the previous agreement, CCI paid the Company a monthly royalty calculated as a percentage of its sales of the Company's products. Under the new agreement, in lieu of the monthly royalty, the prices at which products are sold to CCI were marked up to include the royalty so that no additional royalty is due upon the sale of the Company's products by CCI. To affect the transition of royalty calculations from the previous agreement to the new agreement, the Company recorded a royalty receivable of $941,000, which is being paid over an 18-month period beginning October 2014 in the amount of approximately $52,000 per month. As of December 31,

2014, the portion of this royalty receivable due after December 31, 2015 was classified was "Other assets" in the accompanying consolidated balance sheet.

NOTE D – INVENTORIES

At December 31, 2015 and 2014, inventories, which are stated at the lower of cost or market, consist of the following:

	2015	2014
Raw materials and bulk products	$ 674,770	$ 370,333
Packaging materials	246,968	253,700
Finished goods	3,358,832	4,175,050
	$ 4,280,570	$ 4,799,083

NOTE E – PREPAID EXPENSES AND OTHER CURRENT ASSETS

At December 31, 2015 and 2014, prepaid expenses and other current assets consist of the following:

	2015	2014
Advance payments to suppliers	$ 186,853	$ 151,365
Certificates of deposit - restricted	61,285	73,270
Prepaid insurance and other	216,035	239,385
Total	$ 464,173	$ 464,020

In 2013, the Company entered into agreements with an Associate to market Nutritional Products in Australia and certain Southeast Asia markets (the "Asia Marketing Agreements"). Pursuant to the Asia Marketing Agreements, the Company made cash advances to this Associate, which were classified as “Prepaid expenses and other current assets” in the Company’s consolidated financial statements, to support marketing and sales activities and establish product distribution facilities. On July 30, 2013, in breach of Asia Marketing Agreements, the Associate notified the Company that he was unable to fulfill his financial obligations. At the date of the breach, the Company had advanced funds to this Associate totaling approximately $403,000. On March 31, 2014, the Company formally terminated the Asia Marketing Agreements and, in lieu of payment due from the Associate on the outstanding advances, took possession of property and equipment and lease deposits valued at approximately $104,000 and $43,000, respectively. The balance of the advances outstanding at March 31, 2014 was charged to general and administrative expenses.

At December 31, 2015 and 2014, the Company held certificates of deposit in the amount of approximately $61,000 and $73,000, respectively, which were pledged to secure surety bonds.

NOTE F – PROPERTY AND EQUIPMENT

At December 31, 2015 and 2014, property and equipment consist of the following:

	2015	2014
Building and improvements	$ 193,464	$ 4,042,897
Computer software and office equipment	2,595,187	3,536,399
Warehouse equipment	254,034	254,034
Automotive equipment	14,717	14,717
	3,057,402	7,848,047
Less accumulated depreciation and amortization	1,820,039	4,305,724
	1,237,363	3,542,323
Land	-	1,141,173
	$ 1,237,363	$ 4,683,496

Depreciation expense totaled approximately $489,100 and $542,700 for the years ended December 31, 2015, and 2014, respectively.

On July 15, 2015, the Company completed the sale of its headquarters building and related parcel of land in Irving, Texas for approximately $5.18 million. After repayment of outstanding mortgage debt of approximately $1.13 million secured by this facility and payment of other closing costs and adjustments, the Company received net cash proceeds of approximately $3.75 million. Effective upon closing of this sale, the Company entered into an agreement to lease back the facility from the purchaser under a lease that provides for, among other things, a lease term ending April 30, 2016 and rent of approximately $35,000 per month.

NOTE G – GOODWILL AND OTHER INTANGIBLE ASSETS

The Company measures its goodwill for impairment at the end of each year or in the event of an impairment indicator. No impairment losses have been recognized as a result of this testing. See Note L for a discussion of the fair value assumptions used for assessing goodwill for impairment.

Goodwill balances are summarized as follows:

	Gross Carrying Value	Accumulated Amortization
Balance, January 1, 2014	$ 3,367,863	$ (1,104,405)
Currency translation adjustment	(82,173)	40,062
Balance, December 31, 2014	3,285,690	(1,064,343)
Currency translation adjustment	(152,516)	76,488
Balance, December 31, 2015	$ 3,133,174	$ (987,855)

At December 31, 2015 and 2014, other intangible assets consist of the following:

	2015			2014		
	Average Life (years)	Gross Carrying Value	Accumulated Amortization	Average Life (years)	Gross Carrying Value	Accumulated Amortization
Copyrights, trademarks and other registrations	19	$ 99,100	$ (75,976)	19	$ 99,100	$ (70,690)
Business license	1	37,193	(37,193)	1	37,193	(29,240)
Other	19	12,600	(9,660)	19	12,600	(8,988)
		$ 148,893	$ (122,829)		$ 148,893	$ (108,918)

Amortization expense related to other intangible assets totaled approximately $13,000 and $37,200 for the years ended December 31, 2015 and 2014, respectively. The aggregate estimated amortization expense for other intangible assets is as follows:

Year ended December 31,	
2016	$ 5,957
2017	5,957
2018	5,957
2019	5,957
2020	2,236
Thereafter	-
	$ 26,064

NOTE H – ACCRUED LIABILITIES

At December 31, 2015 and 2014, accrued liabilities consist of the following:

	2015	2014
Distributor commissions and awards	$ 1,047,593	$ 867,336
Salaries and wages	501,048	468,192
Sales and property taxes	7,462	73,954
Interest	-	7,339
Other	7,478	3,229
Total	$ 1,563,581	$ 1,420,050

NOTE I – LONG-TERM OBLIGATIONS

At December 31, 2015 and 2014, long-term obligations consist of the following:

	2015	2014
Mortgage note payable bearing interest at 7.75%, payable in monthly installments of $25,797 through April 2019, collaterized by land and building, and personally guaranteed by the Company's Chairman of the Board of Directors	$ -	$ 1,136,347
Less - current maturities	-	229,538
	$ -	$ 906,809

As more fully described in Note F, this mortgage note was fully paid in July 2015 in connection with the sale of the land and building that secured the note.

NOTE J – SHARE-BASED COMPENSATION

Stock incentive plans - On July 1, 1998, the Company's shareholders adopted the 1998 Stock Option Plan and reserved 50,000 shares of common stock for issuance under this plan. Effective September 4, 2003, the Company's shareholders adopted an amendment and restatement of this plan, which, among other things, increased the number of shares reserved under this plan to 350,000. This plan expired July 1, 2008 although options granted under this plan remain outstanding at December 31, 2015.

On June 1, 2006, the Company's shareholders adopted the 2006 Stock Incentive Plan (the "2006 Plan") under which 250,000 shares of common stock were reserved for issuance. The 2006 Plan provides for the issuance of non-qualified stock options, incentive stock options, restricted stock awards and stock appreciation rights, and permits grants to employees, non-employee directors and consultants of the Company.

Generally, stock options granted under these plans vest over a period from four to five years and have a term of nine years. Certain stock options granted under these plans were fully vested upon grant and certain options have terms of five years.

Stock Option Accounting - The Company recognizes share-based compensation expense based on the fair value of share-based awards as estimated at the grant date. There was no share-based compensation expense for 2015; share-based compensation expense for 2014 was approximately $2,100 and is classified as a general and administrative expense. Tax benefits related to this expense were immaterial because virtually all share-based compensation resulted from grants of Incentive Stock Options ("ISO"). No tax benefit is recorded for an ISO unless upon exercise a disqualifying disposition occurs. The Company will prospectively record any excess tax benefits from the exercise of stock options as cash flows from financing activities. There were no material excess tax benefits in 2015 or 2014.

Fair Value - The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Year Ended December 31,	
	2015	2014
	(1)	(1)
Weighted average expected life (years)	0	0
Risk-free interest rate	0%	0%
Expected volatility	0%	0%
Expected dividend yield	0%	0%

(1) There were no option grants during this period.

The weighted average expected life is based on the option term. The risk-free interest rate is based on U.S. Treasury issues with a term equal to the expected life of the option. The expected volatility is based on historical volatility rates. The expected dividend yield is 0.0% since the Company has no history of paying dividends and currently has no plans to do so.

Stock Option Activity - A summary of stock option activity for the two years ended December 31, 2015 and 2014 is as follows:

	Options	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding, January 1, 2014	69,396	$ 4.00		
Granted	-	-		
Exercised	-	-		
Forfeited/canceled	(18,500)	3.29		
Outstanding, December 31, 2014	50,896	4.35		
Granted	-	-		
Exercised	(660)	1.35		
Forfeited/canceled	(20,676)	3.00		
Outstanding, December 31, 2015	29,560	$ 5.55	3.17	$ -
Exercisable, December 31, 2015	29,560	$ 5.55	3.17	$ -

There were no non-vested stock options outstanding at any time during 2015. A summary of activity related to the Company's non-vested stock options during the year ended December 31, 2014 is presented below:

	2014	
	Shares	Weighted Average Grant Date Fair Value per Share
Non-vested stock options at January 1,	14,750	$ 2.68
Non-vested stock options granted	-	-
Vested stock options	-	-
Forfeited stock options	(14,750)	2.68
Non-vested stock options at December 31,	-	$ -

Additional information related to stock options granted, vested and exercised for the years ended December 31, 2015 and 2014 is a follows:

	Year Ended December 31,	
	2015	2014
Grant date fair value of stock options granted	$ -	$ -
Grant date fair value of stock options vested	-	-
Intrinsic value of stock options exercised	-	-

As of December 31, 2015, there was no unrecognized compensation cost related to stock option grants.

NOTE K – INCOME TAXES

The income tax benefit reconciled to the tax computed at the statutory federal rate of 34% is as follows:

	Year Ended December 31,	
	2015	2014
Federal income tax benefit at statutory rate	(287,729)	$ (245,135)
State income taxes, net of federal benefit	(5,518)	1,682
Share-based compensation	-	716
Effect of foreign operations, net of foreign tax credits	26,740	114,232
R&D tax credits recognized	-	-
Other, net	162,242	10,331
Income tax benefit	$ (104,265)	$ (118,174)

Deferred tax assets and liabilities at December 31, 2015 and 2014 are comprised of the following:

	December 31,	
	2015	2014
Deferred tax assets related to:		
Inventories	$ 271,669	$ 281,155
Accounts receivable and other assets	12,663	12,327
Accrued liabilities	93,502	83,443
Tax loss and tax credit carryforwards	397,014	603,018
Other	16,349	16,446
	791,197	996,389
Valuation allowance	(164,493)	(196,661)
Net deferred tax assets	626,704	799,728
Deferred tax liabilities related to:		
Property and equipment	(80,145)	(363,119)
Intangible assets	(620,278)	(616,124)
Deferred tax liabilities	(700,423)	(979,243)
Net deferred tax liabilities	$ (73,719)	$ (179,515)
Net current deferred tax assets	$ 377,834	$ 376,925
Net long-term deferred tax liabilities	(451,553)	(556,440)
	$ (73,719)	$ (179,515)

At December 31, 2015, the Company has U.S. federal net operating loss carryforwards of approximately $70,000 and tax credit carryforwards of approximately $175,000 that begin to expire in 2020, if not utilized. The Company also has net operating loss carryforwards totaling approximately $1,617,000 related to various foreign jurisdictions that begin to expire in 2016 if not utilized.

The Company files federal income tax returns in the U.S. and certain foreign jurisdictions where the Company conducts operations and in certain U.S. state jurisdictions. The most significant taxing jurisdiction is the U.S. federal jurisdiction. The Company's 2011 through 2015 tax years remain subject to examination by the IRS for U.S. federal tax purposes. As of December 31, 2015, no tax years were under examination in any taxing jurisdiction.

Income tax expense (benefit) consists of the following:

	Year Ended December 31,	
	2015	2014
Current		
Federal	$ 2,902	$ 6,999
Foreign	11	-
Deferred		
Federal	(148,216)	21,816
Foreign	41,038	(146,989)
Income tax benefit	$ (104,265)	$ (118,174)

NOTE L - FAIR VALUE MEASUREMENTS

As defined in ASC 820, *Fair Value Measurements*, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a three-level valuation hierarchy for fair value measurements. These valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect less transparent active market data, as well as internal assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1-Quoted prices for *identical* instruments in active markets
- Level 2-Quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose significant inputs are observable
- Level 3-Instruments with significant unobservable inputs

The fair value of the Company's fixed-rate long-term debt as described in the "Financial Instruments" section under Note B was determined based on quoted prices for similar instruments in active markets, which are considered to be Level 2 inputs within the fair value hierarchy.

The Company has also performed the required impairment review related to goodwill, as described in Note B. A fair value-based methodology is used in testing the carrying value of goodwill, utilizing assumptions including: (1) a long-term projection of revenues and expenses; (2) estimated discounted future cash flows; (3) weighted-average cost of capital; (4) expected tax rate and (5) the enterprise value of comparable companies as a percentage of sales. Factors used in the valuation of goodwill include, but are not limited to, management's plans for future operations, recent operating results and discounted projected future cash flows. These factors are considered Level 3 inputs within the fair value hierarchy.

NOTE M – COMMITMENTS AND CONTINGENCIES

Leases - The Company leases office and warehouse space and certain equipment using operating leases for various periods through 2018. Rental expense under non-cancelable operating leases totaled $637,000 and $415,000 in 2015 and 2014, respectively. Future minimum payments under non-cancelable operating leases are as follows:

Year ended December 31,	
2016	$ 487,023
2017	191,602
2018	31,153
	$ 709,778

Employee Arrangements - The Company has entered into employment agreements with certain of its key executives. In October, 2013, the Company entered into an employment agreement with the Company's then Chief Executive Officer. This agreement provided for employment through December 31, 2014, automatic renewal of employment for an additional one-year term unless either party provided notice of non-renewal and, upon termination of employment, a three-year consulting arrangement to be compensated at a specified portion of salary. The employment agreement was not renewed as of December 31, 2014.

In December 2014, the Company entered into an employment agreement with the Company's current Chief Executive Officer with an initial term ending December 31, 2015. This agreement automatically renews for an additional one-year term at end of the initial term or any subsequent renewal term unless either party provides notice to the other 60 days prior to the last day of the then current term. Among other things, the agreement provides that if employment is terminated for certain reasons set forth in the agreement, which reasons do not include a change of control, the Company will be required to make a severance payment in an amount equal to the greater of (i) the remaining compensation due through the end of the current term or (ii) one-half of the annual base salary. In the event that the Company chooses not to renew the agreement, the Chief Executive Officer will be entitled to one-half of the annual base salary as severance.

In December 2014 and January 2015, the Company entered into employment agreements with six other officers or members of the executive team, expiring December 31, 2015. These agreements generally replaced agreements which expired December 31, 2014. Among other things, the agreements provide that if employment is terminated for certain reasons set forth in the agreements, which reasons do not include a change of control, the Company will be required to make a severance payment in an amount equal to the greater of (i) the remaining compensation due through the end of the current term or (ii) one-half of the annual base salary. These agreements were not renewed as of December 31, 2015.

The Company’s employees can participate in an employee benefit plan under Section 401(k) of the Internal Revenue Code offered through its Professional Employer Organization. This plan covers employees in the U.S. who are at least 18 years of age and have been employed by the Company longer than three months. The Company makes discretionary matching contributions equal to 10% of the employees’ contributions. Total matching contributions made by the Company during both 2015 and 2014 were approximately $10,000.

Litigation - The Company is from time to time engaged in routine litigation. The Company regularly reviews all pending litigation matters in which it is involved and establishes reserves deemed appropriate by management.

One medical/surgical dealer accounts for a significant portion of Medical Products sales. This dealer accounted for 42% and 45% of Medical Products net sales in 2015 and 2014, respectively. On February 27, 2012, The Company was notified that this dealer filed a voluntary petition for protection under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the Central District of California in Santa Ana, California on February 24, 2012. In July 2014, pursuant to an arrangement approved by the Bankruptcy Court, the pre-petition accounts receivable balance owed to the Company was paid in full. In May 2015, this dealer emerged from bankruptcy following the Bankruptcy Court's confirmation of its plan of reorganization.

On April 4, 2014, the Company received a notice from Environmental Research Center ("ERC"), a California non-profit corporation, alleging that the Company failed to include a warning notice related to lead content on labels of certain nutritional products sold in California as required under California's Safe Drinking Water and Toxic Enforcement Act of 1986 (commonly known as Proposition 65). Sales of products identified in this notice totaled approximately $60,000 for the period covered by the notice. During the first quarter of 2015, the Company and ERC entered into a settlement agreement, which was approved by the Court having jurisdiction over this matter, pursuant to which the Company agreed to modify its labeling of the affected products and pay certain settlement costs. These settlement costs have been recognized in the accompanying consolidated financial statements.

On April 28, 2015, Mannatech, Incorporated, a distributor of nutritional supplement products, filed suit against the Company alleging patent infringement with respect to sales of two of the Company's products. In July 2015, the parties entered into a settlement agreement and the suit was dismissed. All related settlement costs have been recognized in the accompanying consolidated financial statements.

No assurances can be given regarding the outcome of these or any other pending proceedings, or the ultimate effect such outcomes may have. However, other than as stated above, we do not believe we are a party to any legal or administrative proceedings which, if determined adversely to us, individually or in the aggregate, would have a material effect on our financial position, results of operations or cash flows.

NOTE N – SEGMENTS AND GEOGRAPHIC AREA

The Company's segments are based on the organization structure that is used by management for making operating and investment decisions and for assessing performance. Based on this structure, the Company has two operating segments: Nutritional Products and Medical Products.

The Nutritional Products segment manufactures and distributes a line of approximately 100 nutritional supplements and personal care products, including herbs, vitamins and minerals, as well as natural skin, hair and body care products. Nutritional Products are marketed under the "RBC Life" brand name through subsidiaries in North America and Southeast Asia. These products are distributed by a network comprised of independent Associates and NFR program participants in certain markets, primarily North America and Southeast Asia, and by licensees in other international markets. For the most part, licensees also market the Nutritional Products in their respective territories through a network of independent Associates.

The Medical Products segment markets a line of over 35 wound care products under the "MPM Medical" brand name through a subsidiary operating primarily in the U.S. These wound care products are distributed to hospitals, nursing homes, home health care agencies, clinics and pharmacies through a network of medical/surgical supply dealers, pharmaceutical distributors and our own sales representatives. Medical Products are used to treat and manage pain associated with wounds, in the acute care, long-term care and oncology markets.

The accounting policies of the segments are the same as those described in Note B. The Company evaluates the performance of its segments primarily based on operating income. All intercompany transactions have been eliminated, and intersegment revenues are not significant. In calculating operating income (loss) for these two segments, administrative expenses incurred that are common to the two segments are allocated on a usage basis.

Segment information is as follows (U.S. dollars in thousands):

	Nutritional Products	Medical Products	Consolidated
Year ended December 31, 2015			
Net sales	$ 17,041	$ 7,324	$ 24,365
Depreciation and amortization	458	44	502
Operating profit (loss)	(1,652)	847	(805)
Capital expenditures	1,125	-	1,125
Total assets	7,695	3,601	11,296
Year ended December 31, 2014			
Net sales	$ 22,073	$ 6,197	$ 28,270
Depreciation and amortization	519	61	580
Operating profit (loss)	(734)	109	(625)
Capital expenditures	1,074	-	1,074
Total assets	13,192	2,804	15,996

Financial information summarized geographically based on the customer's ordering location for the years ended December 31, 2015 and 2014 is listed below (U.S. dollars in thousands):

	Net Sales	Long-lived Assets
Year ended December 31, 2015		
Domestic	$ 9,759	$ 2,881
Russia/Eastern Europe	6,722	-
Canada	772	389
Southeast Asia	6,856	237
All others	256	-
Totals	$ 24,365	$ 3,507
Year ended December 31, 2014		
Domestic	$ 8,974	$ 6,309
Russia/Eastern Europe	10,633	-
Canada	1,223	465
Southeast Asia	7,245	375
All others	195	-
Totals	$ 28,270	$ 7,149

Significant Customers - The Company recorded sales to CCI, a licensee of the Company, in the amount of $6,722,000 and $10,633,000 for the years ended December 31, 2015 and 2014, respectively. The Company also recorded sales to a medical/surgical dealer (see Note M) in the amount of $3,065,000 and $2,814,000 for the years ended December 31, 2015 and 2014, respectively. In no other case did a customer of the Company account for more than 10% of net sales for the years ended December 31, 2015 or 2014. At December 31, 2015, two customers accounted for 54% of year-end accounts receivable.

NOTE O – LOSS PER SHARE

Summarized basic and diluted loss per common share were calculated as follows:

	Net Loss	Shares	Per Share
Year ended December 31, 2015			
Basic loss per common share	$ (741,839)	2,212,433	$ (0.34)
Effect of dilutive stock options	-	-	-
Diluted loss per common share	$ (741,839)	2,212,433	$ (0.34)
Year ended December 31, 2014			
Basic loss per common share	$ (602,811)	2,212,350	$ (0.27)
Effect of dilutive stock options	-	-	
Diluted loss per common share	$ (602,811)	2,212,350	$ (0.27)

For 2015 and 2014, the number of stock options that were outstanding but not included in the computation of diluted loss per common share because their exercise price was greater than the average market price of our common stock or were otherwise anti-dilutive, was approximately 30,000 and 51,000, respectively.

NOTE P – RELATED PARTY TRANSACTIONS

Customer Arrangement - The Company's principle licensee is CCI. The president of CCI beneficially owned approximately 18% of the Company's outstanding common stock at December 31, 2015 and was a member of the Company's Board of Directors until June 2004. The Company recorded sales to CCI in the amount of $6,722,000 and $10,633,000 for the years ended December 31, 2015 and 2014, respectively.

In August 2014, the Company entered into a two-year exclusive distributorship agreement with CCI. This agreement replaced the 10-year exclusive distributorship agreement between the parties that automatically renewed for a one-year term following expiration of the initial term in July 2014. Pursuant to the new agreement, CCI's exclusive territory now includes Russia and other countries located primarily in Europe and Central Asia, which represents an expansion of the territory set forth in the former agreement. Under the former agreement, CCI distributed products in a territory comprised mainly of Russia and Eastern Europe.

Also under the former agreement, in consideration of the grant of certain rights, CCI paid the Company a monthly royalty calculated as a percentage of its sales of the Company's products. Under the new agreement, in lieu of a royalty, the prices at which products are sold to CCI were marked up as of the effective date of the agreement to include the royalty so that no additional royalty is due upon the sale of the Company's products by CCI. To affect the transition of royalty calculations from the previous agreement to the new agreement, the Company recognized royalties of $941,000 on a one-time basis, which royalties are being paid over an 18-month period beginning October 2014. Of this $941,000 in royalties, approximately $476,000 was recorded as royalty revenue in the third quarter of 2014 while the remainder was recorded as deferred revenue pending shipment of the related products. Royalty revenue earned in 2014 in connection with the former licensee agreement was recorded as sales and amounted to $1,444,000.

In accordance with the terms of both the new agreement and previous agreement, CCI is required to pay a deposit at the time it places an order and then pay the balance when products are delivered to CCI. Delivery occurs at the time products are segregated in the Company's warehouse for CCI's account or when they are shipped to CCI, whichever is sooner. Under the new agreement, CCI is required to pay a 25% deposit with each order. Under the previous agreement, CCI was required to pay a 50% deposit with each order. In December 2015, the Company and CCI completed an arrangement whereby the Company no longer holds products for CCI's account. Accordingly, all products held for CCI by the Company, totaling approximately $1,775,000, were shipped to CCI prior to December 31, 2015 and recognized as sales in the fourth quarter of 2016. Deferred revenue associated with CCI's account, which primarily includes deposits for orders placed with the Company and, prior to December 31, 2015, payments for products held by the Company for shipment to CCI at a later date, totaled $67,000 and $2,138,000 at December 31, 2015 and 2014, respectively.

Associate Sales and Marketing System - In December 2013, the Company engaged GSAT, Inc. ("GSATi") to develop a new Associate sales and marketing system, which was deployed April 1, 2015, and included in the capital expenditures for the year ended December 31, 2015. The founder and CEO of GSATi was a member of the Company's Board of Directors from June 2014 through February 2016.

NOTE Q - SUBSEQUENT EVENT

On March 26, 2016, the Company extended its facility lease agreement (Note F). The thirty-six month lease begins on May 1, 2016, provides for the lease by the Company of approximately 55,700 square feet of space in Irving, Texas. Base annual rent is set at approximately $21,660 per month. Total base rent payable over the lease period is $779,700. The landlord may cancel the lease any time after twenty-two months upon eight months' notice. The Company is responsible for it's pro rata share of operating expenses including ad valorem real estate taxes, property insurance and property maintenance costs.

NOTE R – QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly financial data for the years ended December 31, 2015 and 2014 is summarized as follows:

	Quarter Ended			
	March 31	June 30	September 30	December 31
2015	*(Unaudited - In thousands, except per share data)*			
Net sales	$ 5,360	$ 6,192	$ 5,406	$ 7,407
Gross profit	3,049	3,500	3,123	3,789
Net income (loss)	(550)	(245)	331	(278)
Income (loss) per share:				
Basic	$ (0.25)	$ (0.11)	$ 0.15	$ (0.13)
Diluted	(0.25)	(0.11)	0.15	(0.13)
2014				
Net sales	$ 5,716	$ 7,885	$ 7,515	$ 7,157
Gross profit	3,182	4,122	4,282	4,052
Net loss	(378)	(7)	(124)	(94)
Loss per share:				
Basic	$ (0.17)	$ (0.00)	$ (0.06)	$ (0.04)
Diluted	(0.17)	(0.00)	(0.06)	(0.04)