

ENCOUNTER CARE SOLUTIONS, INC. AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

MARCH 31, 2012

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CONSOLIDATED FINANCIAL STATEMENTS

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Encounter Care Solutions, Inc. and Subsidiary
Consolidated Balance Sheet
(unaudited)

ASSETS

	March 31, 2012
Current Assets	
Cash	\$ 72,621
Accounts Receivable	147,091
Note Receivable	475,000
Total Current Assets	<u>694,712</u>
 Property and Equipment, net of depreciation	 13,049
 Other Assets	
Deposits	13,200
Marketable Securities	1,215,000
Intangibles	501,944
Total Other Assets	<u>1,730,144</u>
 TOTAL ASSETS	 <u><u>\$ 2,437,905</u></u>

LIABILITIES & STOCKHOLDERS' DEFICIT

Current Liabilities	
Accounts payable	\$ 30,558
Accrued expenses	33,150
Total Current Liabilities	<u>63,708</u>
 Long-Term Liabilities	
Notes Payable	125,000
Notes Payable - related parties	2,681,635
Total Long-Term Liabilities	<u>2,806,635</u>
 TOTAL LIABILITIES	 2,870,343
 COMMITMENTS & CONTINGENCIES	 -
 Stockholder's Deficit	
Common Stock, 50 million authorized, par value \$.001, 49,250,000 issued and outstanding March 30, 2012	49,250
Additional paid in capital	21,572,754
Accumulated retained deficit	(22,054,442)
Total Stockholders' Deficit	<u>(432,438)</u>
 TOTAL LIABILITIES & STOCKHOLDERS' DEFICIT	 <u><u>\$ 2,437,905</u></u>

Encounter Care Solutions, Inc. and Subsidiary
Consolidated Statement of Operations
(unaudited)

	For Nine Months Ended March 31, 2012
Revenues	
Sales	\$ 571,952
License fees	2,215,000
Total Revenues	<u>2,786,952</u>
Cost of Goods Sold	<u>172,746</u>
Gross Profit	2,614,206
Operating Expenses	
	340,991
Payroll	164,979
Depreciation and amortization	36,849
Total Operating Expenses	<u>542,820</u>
Net Profit from Operations	<u>2,071,386</u>
Other (Expenses)	
Interest expense	225,271
Gain on sale equity method investment	794,000
Total Other (Expense)	<u>1,019,271</u>
Net Profit Before Provision for Income Tax	3,090,657
Provision for Income Taxes	-
Net Profit	<u><u>\$ 3,090,657</u></u>
Basic and diluted earning per share	0.06
Weighted average number of common shares - basic and diluted	<u><u>49,250,000</u></u>

Encounter Care Solutions, Inc. and Subsidiary
Consolidated Statement of Changes in Stockholders' Deficit
For Nine Months Ended March 31, 2012
(unaudited)

	<u>Common stock</u>		Additional paid-in capital	Accumulated retained deficit	Total Stockholders' Deficit
	Shares	Amount			
Balance, July 1, 2010	42,000,000	\$ 42,000	\$ 18,719,233	\$ (24,193,693)	\$ (5,432,460)
Common stock debt conversion	7,250,000	7,250	2,367,750		2,375,000
Contributed capital on noninterest bearing notes			268,000		268,000
Net Loss for the year ended June 30, 2011				(951,406)	(951,406)
Balance, June 30, 2011	49,250,000	\$ 49,250	\$ 21,354,983	\$ (25,145,099)	\$ (3,740,866)
Contributed capital on noninterest bearing notes			217,771		217,771
Net profit for the year ended March 31, 2012				3,090,657	3,090,657
Balance, March 31, 2012	49,250,000	49,250	21,572,754	(22,054,442)	(432,438)

Encounter Care Solutions, Inc. and Subsidiary
Consolidated Statement of Cash Flows
(unaudited)

	For Nine Months ended March 31, 2012
Cash Flows from Operating Activities	
Net Profit	\$ 3,090,657
Adjustments to reconcile net loss to net cash used in operations	
Depreciation and amortization	36,849
Gain on equity method investment	(794,000)
Contributed capital for non interest bearing notes payable	217,771
Restricted stock received as license fees	(1,215,000)
Changes in operating assets and liabilities:	
(Increase) in deposits	(1,166)
(Increase) in accounts receivable	159,221
Increase in accounts payable	(4,461)
Increase in accrued expenses	(5,350)
Net Cash Used in Operations	<u>1,484,522</u>
 Cash Flows from Financing Activities	
Payments on notes payable - related parties	(1,412,181)
Net Cash Provided by Financing Activities	<u>(1,412,181)</u>
 Net Increase in Cash	72,341
Cash--Beginning of Period	280
Cash - Ending of Period	<u>\$ 72,621</u>
 Supplemental Disclosure of Cash Flow Information:	
Interest paid	<u>\$ -</u>
Supplemental Disclosure of Non-Cash Activities:	

During 2012, a related party assumed \$464,300 of the company's liabilities

ENCOUNTER CARE SOLUTIONS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012

Note 1. Organization and Significant Accounting Policies

Organization and Line of Business

Encounter Care Solutions, Inc. ("the Company") is a Delaware corporation organized March, 2000 and is an integrated healthcare company that operates its business through two divisions: Healthcare Technology Division and the Healthcare Services Division. Encounter Care Solutions, Inc.'s operating businesses offer a broad range of proprietary healthcare technology, products and services that address several very sizeable and rapidly growing target markets, including: the Telemedicine Market, Healthcare Information Technology Market, and Home Healthcare Market.

Joint Venture Termination

The consolidated financial statements for 2012 include the accounts of Encounter Care Solutions, Inc. and its wholly owned subsidiary, Building Blocks Pediatric Home Health Services, Inc.

In June 2008 we formed a joint venture with Authentidate Holding Corp., called ExpressMD™ Solutions LLC to provide in-home patient vital signs monitoring systems and services. The company and Authentidate Holding Corp. each owned fifty percent of the joint venture and neither party had any special rights under the joint venture agreement. ExpressMD Solutions did not have any assets or liabilities and Authentidate Holding Corp. did not have any recourse to our general credit. ExpressMD Solutions was consolidated in Authentidate Holding Corp.'s financial statements because Authentidate Holding Corp. elected to provide the majority of funding for the joint venture and was deemed to be the primary beneficiary.

On November 21, 2011, the company entered into a definitive Joint Venture Termination Agreement (the "Agreement") with Authentidate Holding Corp. (the "Buyer"), providing for the assignment and transfer to the company of all of the membership interests held by Seller in ExpressMD Solutions. At the closing on November 21, 2011, the joint venture agreement was terminated, ExpressMD Solutions became a wholly-owned subsidiary of Authentidate Holding Corp. and the company granted the company a license to use certain intellectual property. Pursuant to the Agreement, Authentidate Holding Corp. agreed to pay to the company \$1,000,000 in cash and deliver to the company 1,500,000 shares of restricted common stock of Authentidate Holding Corp. The cash payment is due as follows: \$50,000 was received prior to the date of the Agreement; \$475,000 was received at the closing; \$200,000 was received in April 2012; and \$275,000 is due on or prior to October 1, 2012. In addition, upon the closing Authentidate Holding Corp. forgave the company approximately \$800,000 for operating expenses advanced to the joint venture. The company recorded a gain on sale of equity method investment.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid temporary cash investments with an original maturity of three months or less to be cash equivalents. At March 31, 2012, the Company had no cash equivalents. The Company at times has cash in banks in excess of FDIC insurance limits. At March 31, 2012, cash balances exceeded these limits by none.

Revenue Recognition

The Company recognizes revenue over the period the service is performed in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 605, Revenue Recognition in Financial Statements. In general, ASC No. 605 requires that four basic criteria must be met before revenue can be recognized: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services rendered, (iii) the fee is fixed and determinable, and (iv) collectability is reasonably assured.

Property and Equipment

Property and equipment are stated at cost and depreciated on the straight line method over the estimated life of the asset, which is 5 years.

ENCOUNTER CARE SOLUTIONS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012

Note 1. Organization and Significant Accounting Policies- Cont.

Investment in subsidiary

In 2008, the Company acquired Building Blocks Pediatric Home Health Services, Inc. by obtaining interest in exchange for 4,000,000 shares of the Company's stock at a fair value of \$0.07 per share. The total consideration paid for the acquisition was \$280,000 (See Notes 2 and 5).

Advertising

The costs incurred for producing and communicating advertising are charged to operations as incurred. Advertising expense for the years ended March 31, 2012 was \$413.

Income Taxes

The Company accounts for income taxes under FASB Codification Topic 740-10-25 ("ASC 740-10-25") Income Taxes. Under ASC 740-10-25, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under ASC 740-10-25, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The net deferred tax liability in the accompanying balance sheets includes the following amounts of deferred tax assets and liabilities:

	<u>March 31, 2012</u>
Deferred tax liability:	\$ -
Deferred tax asset	
Net operating loss carry forward	(21,103,171)
Valuation allowance	21,103,171
Net deferred tax asset	-
Net deferred tax liability	<u>\$ -</u>

The provision for income taxes has been computed as follows:

	<u>March 31, 2012</u>
Expected income tax recovery (expense) at the statutory rate of 35%-Federal	(1,081,730)
Expected income tax recovery (expense) at the statutory rate of 8.7%-State	(268,887)
Tax effect of expenses that are not deductible for income tax purposes	248,535
Change in valuation allowance	1,102,083
Provision for income taxes	<u>\$ -</u>

The valuation allowance was established to reduce the deferred tax asset to the amount that will more likely than not be realized. This is necessary due to the Company's continued operating losses and the uncertainty of the Company's ability to utilize all of the net operating loss carry forwards before they will expire through the year 2031. Also the company will be analyzing its net operating loss carry forward to determine tax effect of prior expenses that are not deductible for income tax purposes.

The net change in the valuation allowance for the period ended March 31, 2012 was an increase of \$1,102,083.

ENCOUNTER CARE SOLUTIONS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012

Note 1. Organization and Significant Accounting Policies- Cont.

The components of income tax expense related to continuing operations are as follows:

	<u>2011</u>	<u>2010</u>
Federal		
Current	\$ -	\$ -
Deferred	-	-
	<u>\$ -</u>	<u>\$ -</u>
State and Local		
Current	\$ -	\$ -
Deferred	-	-
	<u>\$ -</u>	<u>\$ -</u>

Basic and Diluted Net Loss Per Common Share

Net Loss Per Common Share is computed pursuant to FASB Accounting Standards Codification No. 260, *Earnings Per Share*. Basic net loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share is computed in the same way as for Basic net loss.

Note 2. Acquisition

Effective 2008, Encounter Care Solutions, Inc. acquired Building Blocks Pediatric Home Health Services, Inc. The following details the acquisition:

Upon the acquisition of Building Blocks Pediatric Home Health Services, Inc., the Company issued 4,000,000 common stock shares at a price of \$0.07 per share to acquire 100% of the Building Blocks Pediatric Home Health Services, Inc. units at a fair value of \$280,000. The total consideration paid for the acquisition of \$280,000.

Note 3. Property and equipment

Property and equipment is summarized as follows at March 31, 2012:

	<u>March 31, 2012</u>
Office and Medical equipment	\$ 406,217
Furniture	\$ 37,461
Automobile	<u>\$ 27,552</u>
	\$ 471,231
Depreciation	<u>\$ 458,181</u>
Net	<u>\$ 13,049</u>

Depreciation and Amortization expense for the period ended March 31, 2012 was \$4,349.

ENCOUNTER CARE SOLUTIONS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012

Note 4. Notes payable

Notes payable

Prior to 2010 the company entered into a note payable for \$125,000 with a bank that was interest free. An 8% interest was imputed and is being expensed and accrued for \$7,500 as of March 31, 2012.

A note payable - related party was entered into by the Company with an Officer of the Company for an amount of \$3,350,000, with no stated interest. An 8% interest rate was imputed. Interest is contributed to additional paid in capital rather than accrued for \$217,771 as of March 31, 2012. The loan is renewed on an annual basis. During 2012 some loans were relieved of the amount of \$947,881.

	Balance 6/30/2011	Deductions	Balance 3/31/2012
Total	<u>\$3,629,516</u>	<u>947,881</u>	<u>\$2,681,635</u>

Note 5. Commitments and contingencies

Employment agreements

The Company has an employment agreement with the president/Chief Executive Officer. No expenses or accruals are shown from this agreement.

Lease agreement

In May 2009, the Company entered into a lease agreement for an office space in California for a term beginning on May 1, 2009 through April 30, 2012. Through April 30, 2012, the monthly rent expense is \$3,400 per month.

Rent expense for period ended March 31, 2012 was \$27,705.

Future minimum lease commitments due under the operating lease at March 31, 2012 is as follows:

	2012	2013	Later Years
Operating lease:	\$ 3,400	\$ -	\$ -

Note 6 Investments in marketable securities and fair value

As of March 31, 2012, the Company has investments in marketable securities, as a result of the joint venture see Note 1. The following table summarizes the amortized cost, fair value and weighted-average yield of securities.

	As of March 31, 2012		
	Cost	Fair Value	Yield
Marketable Securities	\$ 1,215,000	\$ 1,095,000	-9.88%

ASC 820 defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. Under GAAP, fair value of such securities is determined based upon a hierarchy that prioritizes the inputs to valuation techniques used to measure fair values into three broad levels.

ENCOUNTER CARE SOLUTIONS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012

Note 6 Investments in marketable securities and fair value- Cont.

The fair value of the Company's financial assets and liabilities reflects the Company's estimate of amounts that it would have received in connection with the sale of the assets or paid in connection with the transfer of the liabilities in an orderly transaction between market participants at the measurement date. In connection with measuring the fair value of its assets and liabilities, the Company seeks to maximize the use of observable inputs (market data obtained from sources independent from the Company) and to minimize the use of unobservable inputs (the Company's assumptions about how market participants would price assets and liabilities).

The following fair value hierarchy is used to classify assets and liabilities based on the observable inputs and unobservable inputs used in order to value the assets and liabilities:

- Level 1: Quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2: Observable inputs other than Level 1 inputs. Examples of Level 2 inputs include quoted prices in active markets for similar assets or liabilities and quoted prices for identical assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs based on the Company's assessment of the assumptions that market participants would use in pricing the asset or liability.

	Level 1: Quoted Prices in Active Markets for Identical Assets	Level 2: Quoted Prices in Inactive Markets for Identical Assets	Level 3: Significant Unobservable Inputs	Total at March 31, 2012
Marketable Securities	\$ 1,215,000	\$ -	\$ -	\$ 1,215,000

Note 7. Subsequent events

In May 2012 the Company renewed the operating lease for another 24 months with the monthly rate of \$2,400 a month. The lease is set to expire April 30, 2014.