

**AVT, INC.**  
Balance Sheets

ASSETS

	December 31, 2015 (unaudited)	December 31, 2014 (unaudited)
<b>CURRENT ASSETS</b>		
Cash and cash equivalent	\$ 231,535	\$ 328,839
Accounts receivable, net	103,120	111,244
Related party loan receivable	-	325,511
Inventory, net	2,492,622	2,932,934
<b>Total Current Assets</b>	<b>2,827,277</b>	<b>3,698,528</b>
<b>PROPERTY AND EQUIPMENT, net</b>	<b>1,204,396</b>	<b>1,925,916</b>
<b>NON CURRENT ASSETS</b>		
Intangibles, net	3,801,716	4,408,177
<b>Total Other Assets</b>	<b>3,801,716</b>	<b>4,408,177</b>
<b>TOTAL ASSETS</b>	<b>\$ 7,833,389</b>	<b>\$ 10,032,621</b>

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

**AVT, INC.**  
Balance Sheets

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2015 (unaudited)	December 31, 2014 (unaudited)
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 4,050,968	\$ 437,084
Deferred revenues	-	150,000
Related party payables	140,140	412,106
Current portion of notes payable	706,333	738,792
Current portion of convertible notes, net of discount of \$-0- and \$-0-, respectively	1,236,159	944,167
Derivative liabilities	-	944,533
<b>Total Current Liabilities</b>	<b>6,133,600</b>	<b>3,626,682</b>
<b>LONG TERM LIABILITIES</b>		
Notes payable, net of current portion	25,883	379,981
Convertible notes, net of current portion, net of discount of \$-0- and \$60,397, respectively	668,375	883,489
<b>Total Long Term Liabilities</b>	<b>694,258</b>	<b>1,263,470</b>
<b>TOTAL LIABILITIES</b>	<b>6,827,858</b>	<b>4,890,152</b>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock; 10,000,000 shares authorized at \$0.001 par value, 2,322,275 and 2,322,275 shares issued and outstanding, respectively	2,322	2,322
Common stock; 100,000,000 shares authorized at \$0.001 par value, 23,943,377 and 21,312,470 shares issued and outstanding, respectively	23,943	21,312
Additional paid-in capital	39,641,028	39,166,469
Accumulated deficit	(38,661,762)	(34,047,634)
<b>Total Stockholders' Equity</b>	<b>1,005,531</b>	<b>5,142,469</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 7,833,389</b>	<b>\$ 10,032,621</b>

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**AVT, INC.**  
Statements of Operations

	For the Years Ended December 31,	
	2015	2014
	(unaudited)	(unaudited)
REVENUES		
Machine sales	\$ 3,380,869	\$ 5,132,302
Vending machine sales	1,298,685	1,080,020
Total revenues	<u>4,679,554</u>	<u>6,212,322</u>
COST OF SALES	<u>2,582,406</u>	<u>3,858,357</u>
GROSS PROFIT	<u>2,097,148</u>	<u>2,353,965</u>
OPERATING EXPENSES		
Depreciation and amortization	1,246,968	1,291,718
General and administrative	<u>3,306,278</u>	<u>3,370,478</u>
Total Operating Expenses	<u>4,553,246</u>	<u>4,662,196</u>
LOSS FROM OPERATIONS	<u>(2,456,098)</u>	<u>(2,308,231)</u>
OTHER INCOME (EXPENSE)		
Interest expense	(8,030)	(710,143)
Loss on conversion of debt	-	(635,250)
Loss on litigation	<u>(2,150,000)</u>	<u>-</u>
TOTAL OTHER INCOME (EXPENSE)	<u>(2,158,030)</u>	<u>(1,345,393)</u>
LOSS BEFORE INCOME TAXES	(4,614,128)	(3,653,624)
INCOME TAX EXPENSE	<u>-</u>	<u>-</u>
NET LOSS	<u>\$ (4,614,128)</u>	<u>\$ (3,653,624)</u>
BASIC AND DILUTED LOSS PER SHARE	<u>\$ (0.20)</u>	<u>\$ (0.19)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING BASIC AND DILUTED	<u>22,627,924</u>	<u>19,234,310</u>

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

**AVT, INC.**  
Statements of Stockholders' Equity  
(unaudited)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance, December 31, 2013	2,476,692	\$ 2,476	17,156,149	\$ 17,156	\$ 36,759,830	\$ (30,394,010)	\$ 6,385,452
Common stock issued upon conversion of preferred stock and accrued dividends	(459,217)	(459)	2,755,314	2,755	(2,296)	-	-
Preferred stock issued for cash	305,000	305	-	-	304,695	-	305,000
Common stock issued for cash	-	-	1,112,337	1,112	1,448,367	-	1,449,479
Common stock issued for interest	-	-	36,516	37	91,470	-	91,507
Common stock issued for services	-	-	5,002	5	14,201	-	14,206
Common stock issued upon conversion of debt	-	-	247,461	247	237,906	-	238,153
Common stock cancelled	-	-	(309)	-	-	-	-
Stock option and warrant expense	-	-	-	-	312,296	-	312,296
Net loss for the year ended December 31, 2014	-	-	-	-	-	(3,653,624)	(3,653,624)
Balance, December 31, 2014	2,322,475	2,322	21,312,470	21,312	39,166,469	(34,047,634)	5,142,469
Common stock issued for cash	-	-	100,000	100	99,900	-	100,000
Common stock issued upon conversion of debt	-	-	2,530,907	2,531	374,659	-	377,190
Net loss for the year ended December 31, 2015	-	-	-	-	-	(4,614,128)	(4,614,128)
Balance, December 31, 2015	<u>2,322,475</u>	<u>\$ 2,322</u>	<u>23,943,377</u>	<u>\$ 23,943</u>	<u>\$ 39,641,028</u>	<u>\$ (38,661,762)</u>	<u>\$ 1,005,531</u>

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

**AVT, INC.**  
Statements of Cash Flows

	For the Years Ended December 31,	
	2015	2014
	(unaudited)	(unaudited)
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (4,614,128)	\$ (3,653,624)
Adjustments to reconcile net loss to net cash used in operating activities:		
(Gain) loss on derivative valuation	(944,533)	-
Loss on conversion of debt	-	635,250
Stock issued for services	-	14,206
Depreciation and amortization	1,246,968	1,291,718
Amortization of debt discount	-	773,630
Changes in operating assets and liabilities:		
Accounts receivable	(8,124)	(861,696)
Inventory	440,312	(915,837)
Deferred revenues	(150,000)	(258,852)
Accounts payable and accrued expenses	3,613,884	94,612
Net Cash Used in Operating Activities	<u>(90,110)</u>	<u>(2,880,593)</u>
<b>INVESTING ACTIVITIES</b>		
Sale of property and equipment	83,014	-
Purchase of property and equipment	<u>(2,001)</u>	<u>(203,466)</u>
Net Cash Used in Investing Activities	<u>81,013</u>	<u>(203,466)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from notes payable	-	270,007
Repayments of notes payable	(288,207)	-
Proceeds from convertible notes	-	992,541
Proceeds from related party loans	100,000	19,176
Proceeds from preferred stock	-	305,000
Proceeds from common stock	100,000	1,449,479
Net Cash Provided by Financing Activities	<u>(88,207)</u>	<u>3,036,203</u>
NET INCREASE (DECREASE) IN CASH	(97,304)	(47,856)
CASH AT BEGINNING OF YEAR	<u>328,839</u>	<u>376,695</u>
CASH AT END OF YEAR	<u>\$ 231,535</u>	<u>\$ 328,839</u>

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

**AVT, INC.**  
Statements of Cash Flows (Continued)

	For the Years Ended December 31,	
	2015	2014
	(unaudited)	(unaudited)
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
CASH PAID FOR:		
Interest	\$ 8,030	\$ 710,143
Income taxes	-	-
NON CASH FINANCING ACTIVITIES:		
Common stock issued for interest	\$ -	\$ 91,507
Common stock issued for settlement of liabilities	377,190	636,685
Common stock issued for conversion of preferred stock	-	2,755

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

**AVT, INC**  
**Notes To Financial Statements**  
For The Years Ended December 31, 2015 and 2014

**Note 1 – Nature of the Business**

AVT, Inc. (the “Company”, “AVT”, “we” or “our”) was originally founded as a vending route company and this “boots-on-the-ground” knowledge and network is key to AVT’s transformation to a leader in the automated retailing industry. The Company spent several years designing their own proprietary systems, which are now patented and patent pending, to provide a superior customer experience. AVT’s goal is to lead the retailing revolution by designing systems that enable retailers to increase customer convenience, sell more products, reduce labor, cut theft, control inventory, and improve revenues.

**Note 2 – Summary of Significant Accounting Policies**

Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents represent all highly liquid investments with original maturities of three months or less. Cash equivalents are comprised of certificates of deposit. The Company maintains its cash in bank accounts, which may exceed federally insured limits at times.

Accounts receivable

Accounts receivable are reported at their outstanding unpaid balances. The Company estimates doubtful accounts for accounts receivable based on historical bad debts, factors related to specific customers’ ability to pay and current economic trends. The Company writes off accounts receivable against the allowance when management determines the balance is uncollectible and the Company ceases collection efforts. The Company offers extended payment terms to certain customers for equipment sales.

Inventory

Inventory is stated at the lower of cost or market, cost being determined using the weighted average method. Inventory is reviewed periodically for slow-moving and obsolete items.

Revenue recognition

The Company derives revenues primarily from pilot programs, sales of customized vending machines and sales of vending goods. The Company recognizes revenues in accordance with SEC Staff Accounting Bulletin No. 104 “Revenue Recognition in Financial Statements (SAB 104)” (Codified within Accounting Standards Codification). Revenue is recognized once the Company has established that (i) there is evidence of an arrangement (ii) delivery has occurred and the performance obligation is substantially complete; (iii) the fee is fixed or determinable and (iv) collection is probable. For pilot programs, the Company provides integrated software development, and manufactures the prototype of vending machines. All pilot program contracts are fixed price contract, which requires 30%-50% advance payment from customers. The Company also manufactures customized vending machines based on customers’ orders. A 30%-50% deposit is also required from customers. The Company will periodically record deferred revenues relating to advance payments in contracts and orders. The Company also operates its own vending machines to sell vending goods. Revenue is recognized at the point of sale which coincides with collection.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Expenditures for additions, major renewals and betterments are capitalized while expenditures for maintenance and repairs are charged to expense as incurred. Depreciation and amortization are provided using the straight-line method over the estimated useful lives or the term of the lease of the related assets, whichever is shorter. Estimated useful lives generally range from 5 to 15 years.

### Intangible assets

Intangible assets are carried at cost and consist of patents, copyrights and certain vending route contracts. Amortization is provided on the straight-line basis over the estimated useful lives of the respective assets, ranging from ten to fifteen years.

Our intangible assets include proprietary technologies, application software, and customized systems acquired in prior years which are used to maintain AVT's high degree of market position.

### Impairment of long-lived assets

The Company accounts for its long-lived assets in accordance with ASC 360, "*Property, Plant, and Equipment*". ASC 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the historical cost carrying value of an asset may no longer be appropriate. The Company assesses recoverability of the carrying value of an asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value or disposable value. The factors considered by management in performing this assessment include current operating results, trends, and prospects, as well as the effects of obsolescence, demand, competition, and other economic factors. During 2015 and 2014, the Company did not deem any of its long-lived assets to be impaired and thus no impairment losses were recorded.

### Stock-based compensation

The Company accounts for share-based awards issued to employees in accordance with FASB ASC 718, "*Stock Based Compensation*". Accordingly, employee share-based payment compensation is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the requisite service period. Additionally, share-based awards to non-employees are expensed over the period in which the related services are rendered at their fair value.

### Income taxes

In accordance with ASC 740 - *Income Taxes*, the provision for income taxes is computed using the asset and liability method. Under the asset and liability method, deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the currently enacted tax rates and laws. A valuation allowance is provided for the amount of deferred tax assets that, based on available evidence, are not expected to be realized.

The Company also follows the guidance related to accounting for income tax uncertainties. In accounting for uncertainty in income taxes, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. No liability for unrecognized tax benefits was recorded as of December 31, 2015 and 2014.

### Loss per share

Basic loss per share is computed by dividing loss available to common shareholders (the numerator) by the weighted-average number of common shares (the denominator) for the period. The computation of diluted loss per share is similar to basic loss per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if potentially dilutive common shares had been issued.

Basic loss per share takes into account only the actual number of outstanding common shares during the period. Diluted loss per share take into effect the common shares actually outstanding and the impact of convertible securities, stock options, stock warrants and their equivalents. For the years ended December 31, 2015 and 2014, common stock equivalents were not included in the computation of diluted loss per share because the effect would have been anti-diluted due to the net loss incurred for these years.

### Concentration of credit risk

Cash is maintained in bank accounts which, at times, may exceed insured limits. The Company has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash.

Approximately 54% and 52% of the Company's revenues for the years ended December 31, 2015 and 2014, respectively, were generated through transactions with its top three customers. In addition, these top customers accounted for 41% and 67% of the Company's accounts receivable balance at December 31, 2015 and 2014, respectively.

## Fair value of financial instruments

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and debt approximate their fair values because of the short-term nature of these instruments. Long-term notes and convertible notes approximate fair value since the related rates of interest approximate current market rates. Management believes the Company is not exposed to significant interest or credit risks arising from these financial instruments.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. The Company utilizes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable.

- Level 1- Quoted prices in active markets for identical assets or liabilities. These are typically obtained from real-time quotes for transactions in active exchange markets involving identical assets.
- Level 2 - Quoted prices for similar assets and liabilities in active markets; quoted prices included for identical or similar assets and liabilities that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. These are typically obtained from readily-available pricing sources for comparable instruments.
- Level 3 - Unobservable inputs, where there is little or no market activity for the asset or liability. These inputs reflect the reporting entity's own beliefs about the assumptions that market participants would use in pricing the asset or liability, based on the best information available in the circumstances.

The following table presents the derivative financial instruments, the Company's only financial liabilities measured and recorded at fair value on the Company's balance sheets on a recurring basis, and their level within the fair value hierarchy as of December 31, 2015:

	Amount	Level 1	Level 2	Level 3
Embedded conversion derivative liability	\$ -	\$ -	\$ -	\$ -
Warrant derivative liabilities	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The following table presents the derivative financial instruments, the Company's only financial liabilities measured and recorded at fair value on the Company's balance sheets on a recurring basis, and their level within the fair value hierarchy as of December 31, 2014

	Amount	Level 1	Level 2	Level 3
Embedded conversion derivative liability	\$ 944,533	\$ -	\$ -	\$ 944,533
Warrant derivative liabilities	-	-	-	-
	<u>\$ 944,533</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 944,533</u>

The following table provides a summary of the changes in fair value, including net transfers in and/or out, of the derivative financial instruments, measured at fair value on a recurring basis using significant unobservable inputs:

Balance at December 31, 2014	\$ 944,533
Fair value of derivative liabilities at issuance	-
Unrealized derivative (gains) losses included in other expense	-
Termination of derivative liabilities	(944,533)
Balance at December 31, 2015	<u>\$ -</u>

The fair value of the derivative liabilities are calculated at the time of issuance and the Company records a derivative liability for the calculated value. Changes in the fair value of the derivative liabilities are recorded in other income (expense) in the statements of operations.



The following are the assumptions used for derivative instruments valued using the Black Scholes option pricing model:

		<b>December 31</b>	
		<b><u>2015</u></b>	<b><u>2014</u></b>
Market value of stock on measurement date	\$	1.77	\$ 1.77
Risk-free interest rate		0.76%-0.95%	0.76%-0.95%
Dividend yield		0%	0%
Volatility factor		102%-151%	102%-151%
Term		0-3.0 years	0-3.0 years

#### Recently issued accounting pronouncements

Management does not believe that any recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying financial statements.

#### Reclassifications

Certain amounts presented in prior periods have been reclassified to conform with the current period presentation.

#### **Note 3 – Going concern**

As reflected in the accompanying financial statements, the Company has suffered recurring losses from operations. The Company has incurred a net loss of \$4,614,128 during 2015, negative operating cash flows and an accumulated deficit \$38,661,762 at December 31, 2014. These factors raise substantial doubt regarding the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Our present plans to overcome these difficulties, the realization of which cannot be assured, include, but are not limited to, continuing efforts to raise new funding in the public and private markets, to retain the current customers and engage with new customers.

#### **Note 4 – Accounts receivable**

Accounts receivable at December 31, consist of:

	<u>2015</u>	<u>2014</u>
Accounts receivable	\$ 358,249	\$ 366,373
Allowance for bad debts	(255,129)	(255,129)
	<u>\$ 103,120</u>	<u>\$ 111,244</u>

Bad debts expense during 2015 and 2014 was \$0 and \$0, respectively.

#### **Note 5 – Inventory**

Inventory at December 31 consist of:

	<u>2015</u>	<u>2014</u>
Vending machine parts inventory	\$2,417,310	\$3,687,256
Vending goods inventory	75,312	69,178
	<u>2,492,622</u>	<u>3,756,434</u>
Allowance for inventory obsolescence	(-0-)	(823,500)
	<u>\$2,492,622</u>	<u>\$2,932,934</u>

Provisions for inventory obsolescence during 2015 and 2014 were \$0 and \$283,500, respectively.

#### **Note 6 - Property and equipment, net**

Property and equipment at December 31 consists of:

	2015	2014
Building improvements	\$ 602,685	\$ 600,684
Machines on location	1,507,401	1,507,401
Manufacturing equipment	1,221,133	1,221,133
Furniture and equipment	499,656	499,656
Vehicles	629,059	647,340
Computer equipment and software	353,207	353,207
	4,813,141	4,829,421
Accumulated depreciation	(3,608,745)	(2,903,505)
Total Fixed Assets	\$ 1,204,396	\$ 1,925,916

Depreciation expense during 2014 and 2013 was \$705,240 and \$749,994, respectively

#### **Note 7 – Intangibles**

Intangibles at December 31 consist of patents acquired or patents pending related to the following:

	2015	2014
Multimedia system and method for controlling systems	\$ 2,500,000	\$ 2,500,000
VMS Wireless remote	4,645,000	4,645,000
Utique license	653,906	718,639
	7,798,906	7,863,639
Accumulated amortization	(3,997,190)	(3,455,462)
	\$ 3,801,716	\$ 4,408,177

In 2013, the Company entered into a license agreement with Utique, Inc. for the exclusive right to use the latter's intellectual property for a period of 10 years in exchange for the Company's issuance of 201,202 common shares with a fair value of \$653,906. The license agreement requires the Company to pay Utique, Inc. to pay license fees/royalty as a percentage of gross receipts realized by the Company. Royalty rates range from 2% to 2.8% for the first five years and 3% for years 6 to 10.

Amortization expense for the years ended December 31, 2015 and 2014 amounted to \$541,728 and \$541,724, respectively.

#### **Note 8 – Notes payable**

##### Bank loans

During 2012, the Company borrowed \$2,000,000 from a financial institution. The loan bears annual interest of 6% and matures on September 19, 2015. The loan requires monthly principal and interest payments of \$30,457 and is secured by the assets of the Company and is also guaranteed by the Company's Chairman of the Board and a company owned by the Chairman of the Board. The loan requires the Company to maintain certain financial covenants, namely a tangible net worth of not less than \$11.6 million and debt coverage ratio of not less than 2:1. The Company was not in compliance with such covenants and is currently in default. As of December 31, 2015, the outstanding balance on this loan was \$650,728.

##### Vehicle and equipment loans

The Company has various loans for vehicles and equipment subject to annual interest ranging from 1.9% to 14.64% with terms ranging from 2.5 to 6 years. As of December 31, 2015, the outstanding balance on vehicle and equipment loans amounted to \$81,488.

Minimum principal payments on the above loans for the next five years subsequent to December 31, 2014 are as follows:

2016	\$ 706,333
2017	17,436
2018	8,447
2019	-
2020 and thereafter	-
	<u>\$ 732,216</u>

#### Note 9 – Convertible notes

As of December 31, 2015, the Company has outstanding convertible notes which were issued on various dates from 2008 to 2014 totaling to \$1,904,534. These notes are subject to annual interest of 10% which are payable quarterly in cash or stock and have terms averaging to 3 years. The notes are convertible to common stock based on 75% of the average closing price for the immediate preceding 10 trading days if converted within a period of 12 months from the issuance date; or 85% of the average closing price for the immediate preceding 10 trading days if converted after 12 months from the issuance date up to the 24<sup>th</sup> month from the issuance date or 90% of the average closing price for the immediate preceding 10 trading days if converted after 24 months from the issuance date. The Company determined that the conversion feature of the notes qualified for derivative accounting. The fair values of the embedded conversion option of the notes as determined using the Black-Scholes pricing model were recorded as a debt discount at the date of issuance and amortized over the term of the notes. Debt discount recognized for notes issued in 2015 and 2014 amounted to \$0 and \$595,737, respectively.

Amortization of debt discount during 2015 and 2014 amounted to \$0 and \$430,336, respectively.

Convertible notes with principal amounts totaling to \$203,000 were converted to common stock in 2013. The unamortized discount on these notes as of the date of conversion amounting to \$219,955 was written off to interest expense.

Of the total amount outstanding as of December 31, 2014, convertible notes totaling to \$540,000 are past due.

A summary of the activity in convertible notes during 2014 is shown below:

Balance at January 1, 2015, net of unamortized discount	\$ 2,281,734
Proceeds from convertible notes issued during the year	-
Repayments of convertible notes	-
Conversion of convertible notes	(377,190)
	<u>1,904,534</u>
Less - Debt discount	-
Add - Amortization of debt discount	-
	<u>1,904,534</u>
Less – current maturities	(1,904,534)
	<u>\$ -</u>

Future principal payments for the next five years are as follows:

2016	\$ 1,904,534
thereafter	-
	<u>\$1,904,534</u>

#### Note 10 – Related party transactions

As of December 31, 2015, the Company has an outstanding loan payable to a related party of \$140,140.

## Note 11 – Income Taxes

AVT uses the liability method, where deferred tax assets and liabilities are determined based on the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial and income tax reporting purposes. During 2014 and 2013, AVT incurred net losses and, therefore, has no tax liability. The net deferred tax asset generated by the loss carry-forward has been fully reserved. The cumulative net operating loss carry-forward is approximately \$23,350,000 at December 31, 2015, and will expire in the years 2027 through 2034.

At December 31, 2015 and 2014, deferred tax assets consisted of the following:

	<u>2015</u>	<u>2014</u>
Net operating losses	\$11,050,000	\$8,050,000
Less: valuation allowance	<u>(11,050,000)</u>	<u>(8,050,000)</u>
Net deferred tax asset	<u>\$ 0</u>	<u>\$ 0</u>

## Note 12 – Shareholders' Equity

### *Preferred Stock*

During 2014, the Company issued \$305,000 Series A Convertible Preferred stock to a related party for cash of \$305,000. The related party also converted 459,217 Series A Preferred stock to 2,755,314 shares of common stock.

### *Common Stock*

The Company had the following equity transactions during 2014:

- 36,516 common shares with a fair value of \$91,507 were issued as payments of interest on convertible notes.
- 1,112,337 common shares were issued for cash proceeds of \$1,449,479
- 227,221 common shares were issued to convert convertible notes totaling \$636,685
- 5,002 common shares with a fair value of \$14,206 were issued for services
- 2,755,314 common shares were issued to convert 459,217 shares of Series A Convertible Preferred stock
- 309 common shares were cancelled

The Company had the following equity transactions during 2015:

- 100,000 common shares were issued for cash proceeds of \$100,000
- 2,503,907 common shares were issued to convert convertible notes totaling \$377,190

### *Warrants*

A summary of the Company's warrant activity during 2015 and 2014 is presented below:

	<u>Number Outstanding</u>	<u>Weighted- Average Exercise Price Per Share</u>	<u>Weighted- Average Remaining Contractual Life (Years)</u>
Outstanding at January 1, 2014	327,850	\$ 0.10	5
Granted	-	-	-
Exercised	-	-	-
Cancelled/forfeited/expired	-	-	-
Outstanding at December 31, 2014	<u>327,850</u>	<u>\$ 0.10</u>	<u>5</u>
Granted	-	-	-
Exercised	-	-	-
Canceled/forfeited/expired	-	-	-
Outstanding and exercisable at December 31, 2015	<u>327,850</u>	<u>\$ 0.10</u>	<u>5</u>

## Note 13 – Commitments and contingencies

The Company may be involved from time to time in claims, lawsuits, and disputes with third parties, actions involving allegations or discrimination or breach of contract actions incidental in the normal operations of the business. In the opinion of management; no

pending or known threatened claims, actions or proceedings against the Company are expected to have a material adverse effect on AVT's financial position, results of operations or cash flows. AVT cannot predict with certainty, however, the outcome or effect of any of the litigation or investigatory matters specifically described above or any other pending litigation or claims. There can be no assurance as to the ultimate outcome of any lawsuits and investigations.

The Company leases its office, manufacturing and warehouse from a third party for a period of 3 years from April 1, 2015. Rent expense for the years ended December 31, 2015 and 2014 amounted to \$317,301 and \$250,549, respectively.

#### **Note 14 – Significant events**

On May 1, 2015 (the "Petition Date"), the Company filed a voluntary petition in the United States Bankruptcy Court for the Central District of California case number is 6:15-bk-14464 MW (the "Bankruptcy Court") seeking relief under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code"). The Company continues to operate its business as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court.