

## **Results of Operations**

### **For the year ended June 30, 2016**

#### **Sales**

During the year ended June 30, 2016 sales were \$80,000 compared to \$49,000 for the year ended June 30, 2015, an increase of \$31,000. Sales during both periods were primarily related to consulting services with sales of various Apps through Apple, Inc. being less than \$1,000.

#### **Selling, general and administrative**

For the year ended June 30, 2016, selling, general and administrative expenses were \$297,000 compared to \$302,000 for the year ended June 30, 2015 a decrease of \$5,000.

### **Liquidity and capital resources**

We have financed our operations primarily through cash generated from the sale of our stock and loans to us. The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. During the year ended June 30, 2016, the Company suffered net losses of \$707,000. As of June 30, 2016, the Company had a working capital and stockholders' deficiency of \$12,523,000. Historically, the Company has sustained its operations primarily through equity and debt financing. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

# **Annual Report**

## **As of and for the Year Ended June 30, 2016**

### **CONSOLIDATED FINANCIAL INFORMATION**

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**COM-GUARD.COM, INC. AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS**

(unaudited)

June 30,  
2016

June 30,  
2015

**ASSETS**

**Current assets**

Cash and cash equivalents	\$ 1,000	\$ 7,000
Other current assets	461,000	378,000

**Total assets**

\$ 462,000	\$ 385,000
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**LIABILITIES AND STOCKHOLDERS' EQUITY**

**Current liabilities**

Accounts payable	\$ 203,000	\$ 203,000
Accrued expenses	7,620,000	7,051,000
Line of credit — bank	25,000	25,000
Notes payable	5,137,000	4,922,000
Total current liabilities	12,985,000	12,201,000

Commitments and contingencies

**Stockholders' equity**

Series A convertible preferred stock, \$.001 par value, 6,000,000 shares issued and outstanding	6,000	6,000
Common stock, \$.001 par value, 1,000,000,000 shares authorized, 462,289,901 shares issued and outstanding	463,000	463,000
Additional paid-in-capital	11,050,000	11,050,000
Accumulated deficit	(24,042,000)	(23,335,000)
Total stockholders' equity	(12,523,000)	(11,816,000)

**Total liabilities and stockholders' equity**

\$ 462,000	\$ 385,000
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See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(unaudited)

	For the year ended <u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
Revenues	\$ 80,000	\$ 49,000
Selling, general and administrative	297,000	302,000
Loss from operations	<u>(217,000)</u>	<u>(253,000)</u>
<u>Other income (expense)</u>		
Other income	-	8,000
Interest expense	<u>(490,000)</u>	<u>(492,000)</u>
	<u>(490,000)</u>	<u>(484,000)</u>
Net loss	\$ <u>(707,000)</u>	\$ <u>(737,000)</u>
Net loss per share – basic and diluted	\$ <u>(0.002)</u>	\$ <u>(0.002)</u>
Weighted average number of shares outstanding – basic and diluted	<u>462,289,901</u>	<u>462,289,901</u>

**COM-GUARD.COM, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY**  
**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional</u>	<u>Paid-In</u>	<u>Accumulated</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Capital</u>		<u>Deficit</u>	<u>Total</u>
<b>Balance, June 30, 2014</b>	<b>6,000,000</b>	<b>\$ 6,000</b>	<b>462,289,901</b>	<b>\$ 463,000</b>	<b>\$ 11,050,000</b>	<b>\$</b>	<b>(22,598,000)</b>	<b>\$ (11,079,000)</b>
Net loss	-	-	-	-	-		(737,000)	(737,000)
<b>Balance, June 30, 2015</b>	<b>6,000,000</b>	<b>\$ 6,000</b>	<b>462,289,901</b>	<b>\$ 463,000</b>	<b>\$ 11,050,000</b>	<b>\$</b>	<b>(23,335,000)</b>	<b>\$ (11,816,000)</b>
Net loss	-	-	-	-	-		(707,000)	(707,000)
<b>Balance, June 30, 2016</b>	<b>6,000,000</b>	<b>\$ 6,000</b>	<b>462,289,901</b>	<b>\$ 463,000</b>	<b>\$ 11,050,000</b>	<b>\$</b>	<b>(24,042,000)</b>	<b>\$ (12,523,000)</b>

See accompanying notes to consolidated financial statements.

**COM-GUARD.COM, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(UNAUDITED)

	For the year ended June 30,	
	2016	2015
Cash Flows From Operating Activities:		
Net loss	\$ (707,000)	\$ (737,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Changes in operating assets and liabilities:		
Other assets	(83,000)	(38,000)
Accounts payable and accrued expenses	769,000	768,000
Net cash provided (used in) by operating activities	(21,000)	(7,000)
Cash Flows From Financing Activities:		
Proceeds from notes payable	15,000	31,000
Repayment of notes payable	-	(33,000)
Net cash provided by (used in) financing activities	15,000	(2,000)
Net (decrease) increase in cash and cash equivalents	(6,000)	(9,000)
Cash and cash equivalents at beginning of period	7,000	16,000
Cash and cash equivalents at end of period	\$ 1,000	\$ 7,000
Supplemental disclosure of cash flow information:		
Interest paid	\$ 4,000	\$ 4,000
Taxes paid	\$ 4,000	\$ 4,000
Supplemental disclosure of non-cash investing and financing activities:		
Accounts payable converted to notes payable	\$ -	\$ -
Accrued expenses converted to notes payable	\$ 200,000	\$ 123,000

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **NOTE 1 – THE COMPANY AND BASIS OF PRESENTATION**

Com-Guard was incorporated in the state of Nevada on October 7, 1998 as E-WORLD SECURITY, INC and on April 16, 1999, the Company changed its name to COM-GUARD.COM, INC and commenced operations during the year ended June 30, 2003.

The Company has been doing consulting, strategic development and restructuring for the past three years. The Company has applied for and received a developer's license for the Apple mobile platform which includes the iPhone and iPad developer's tools. The Company has also acquired the tools for development on the Android platform from Google. The Company does Consulting in Computer related Fields.

#### Products and Services:

Historically, the Company sold products that afforded security protection to computer hardware and software in microcomputers. The Company has applied for and received a developer's license for the Apple mobile platform which includes the iPhone and iPad developer's tools. The Company has also acquired the tools for development on the Android platform from Google. The Company is looking at acquiring Products related to Security, especially in the area of secure printing and products related to the Internet of things (IoT).

The Company has a special interest in:

- 1 Security
- 2.Tracking
- 3.Secure printing

Future categories that are being explored will include but not be limited to: mobile medical Apps, location related Apps and graphics/picture Apps. And the Internet of Things (IoT).

We have financed our operations primarily through cash generated from the sale of our stock and loans to us. The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. During the year ended June 30, 2016, the Company suffered net losses of \$707,000. As of June 30, 2016, the Company had a working capital and stockholders' deficiency of \$12,523,000. Historically, the Company has sustained its operations primarily through equity and debt financing. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

In view of these matters, the Company will need to improve its working capital position. The Company plans to overcome the circumstances that impact our ability to remain a going concern through a combination of achieving profitability, raising additional debt and equity financing, and renegotiating existing obligations. There can be no assurance, however, that we will be able to complete any additional debt or equity financing on favorable terms or at all, or that any such financings, if completed, will be adequate to meet our capital requirements. Any additional equity or debt financings could result in substantial dilution to our stockholders. If adequate funds are not available, we will be required to delay, reduce or eliminate some or all of our planned activities. Our inability to fund our capital requirements would have a material adverse effect on the Company. Management believes that the actions presently being taken to revise the Company's operating and financial requirements may provide the opportunity for the Company to continue as a going concern

## **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### ***(A) Principles of Consolidation***

The accompanying consolidated financial statements include the accounts of Com-Guard.com, Inc. and its wholly owned subsidiary, PC Products, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

### ***(B) Use of Estimates***

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, 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 and expenses during the reported periods. Actual results could differ from those estimates.

### ***(C) Cash and Cash Equivalents***

For purposes of the cash flow statements, the Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents.

### ***(D) Property and Equipment***

Property and equipment are stated at cost less accumulated depreciation. Depreciation was computed using the straight-line method over the estimated economic useful lives of 3 to 7 years. Expenditures for maintenance and repairs are charged to expense as incurred.

### ***(E) Long-Lived Assets***

The Company reviews long-lived assets and certain identifiable intangible assets for impairment whenever circumstances and situations change such that there is an indication that the carrying amounts may not be recoverable. There were no long-lived assets as of June 30, 2015 and 2014.

### ***(F) Revenue Recognition***

At the time of the transaction, the Company assesses whether the fee is fixed and determinable based on the payment terms associated with the transaction and whether collectability is reasonably assured. If a significant portion of a fee is due after our normal payment terms, the Company accounts for the fee as not being fixed and determinable. In these cases, the Company recognizes revenue as the fees become due. Where the Company provides or delivers a product or service at a specific point in time and there are no remaining obligations, the Company recognizes revenue upon the delivery of the product or completion of the service.

### ***(G) Income Taxes***

The Company accounts for income taxes under SFAS No. 109 "Accounting for Income Taxes". Under SFAS No. 109, 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 SFAS No. 109, 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 Company has made no current provision (benefit) for Federal income taxes because of losses since its inception. A valuation allowance has been used to offset the recognition of any deferred tax



assets arising from net operating loss carry forwards due to the uncertainty of future realization. The use of any tax loss carry forward benefits may also be limited as a result of changes in Company ownership.

***(H) Loss Per Share***

Basic and diluted net loss per share for all periods presented is computed based upon the weighted average number of common shares outstanding and issuable shares as defined by SFAS No. 128, "Earnings Per Share".

***(I) Fair Value of Financial Instruments***

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments", requires disclosures of information about the fair value of certain financial instruments for which it is practicable to estimate that value. For purposes of this disclosure, the fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

The carrying amounts of the Company's financial instruments, including cash and cash equivalents, accounts receivable, advances to suppliers, accounts payable and accrued expenses, line of credit, notes payable and short-term secured financing approximate fair value due to the relatively short period to maturity for these instruments.

***(J) Rounding***

All amounts have been rounded to the nearest \$1,000 except for share amounts.

***(K) Reclassifications***

Certain prior year accounts have been reclassified to conform to the current year's presentation.

**NOTE 3 – COMPOSITION OF CERTAIN FINANCIAL STATEMENT CAPTIONS**

***(A) Property and Equipment***

Property and equipment consisted of the following:

	<b>June 30, <u>2016</u></b>	<b>June 30, <u>2015</u></b>
Equipment	\$ 42,000	\$ 42,000
Auto	10,000	10,000
Furniture and fixtures	3,000	3,000
Computers	2,000	2,000
	<u>57,000</u>	<u>57,000</u>
Less: Accumulated depreciation	57,000	57,000
Property and equipment – net	<u>\$ -</u>	<u>\$ -</u>

There was no depreciation expense for the year ended June 30, 2016 and 2015.

***(B) Accrued Expenses***

Accrued expenses consisted of the following:

<b>June 30, <u>2016</u></b>	<b>June 30, <u>2015</u></b>
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Employee compensation and benefits	\$ 2,232,000	\$ 2,218,000
Interest	4,577,000	4,137,000
Consulting fees	474,000	378,000
Director fees	293,000	293,000
Other	44,000	25,000
Total accrued expenses	<u>\$ 7,620,000</u>	<u>\$ 7,051,000</u>

## NOTE 4 – EQUITY

### *Preferred Stock*

In September 2010, the Company designated 6,000,000 shares of Preferred Stock as Series A Convertible Preferred Stock, par value \$0.001 per share issued at par for an aggregate value of \$6,000.00, the fair market value on the date of issuance. These shares were issued to the Company's Chief Executive Officer as partial compensation for past services.

So long as any Series A Convertible Preferred Stock is outstanding, the Company is prohibited from issuing any series of stock having rights senior or equal to the Series A Convertible Preferred Stock, without the approval of the holder of the outstanding Series A Convertible Preferred Stock.

Each share of Series A Convertible Preferred Stock shall be convertible at any time at the option of the holder thereof into that number of fully paid and nonassessable shares of Common Stock at \$0.001 per share (the "Conversion Price"). Any amount of accrued and unpaid dividends due thereon shall also be convertible into shares of Common Stock at the Conversion Price. The Conversion Price and the number of shares of stock or other securities or property into which the Series A Convertible Preferred Stock is convertible are not subject to adjustment relating to any reorganization, merger or sale of assets, reclassification of securities, split, subdivision of combination shares. As of June 30, 2016, no Series A Convertible Preferred Stock has been converted.

The Company shall have the right to redeem the Series A Convertible Preferred Stock by providing five days notice to the Series A holder at the redemption price of \$0.001 per share. As of June 30, 2016, no Series A Convertible Preferred Stock has been redeemed.

Holders of the Series A Convertible Preferred Stock are entitled to receive, in preference to the holders of any other shares of capital stock of the Company, cumulative dividends when and as if declared by the Board of Directors, out of amounts legally available for the payment thereof, at the annual rate of five percent (5.0%) (the "Series A Dividends"). The Series A Dividends shall accrue on the Series A Convertible Preferred Stock commencing on the date of original and shall be cumulative whether or not earned or declared and whether or not there are profits, surplus or other funds of the Company legally available for the payment of dividends. As of June 30, 2016, no dividends have been paid and the cumulative dividends on the Series A Convertible Preferred Stock was approximately \$1,725.

In the event of a liquidation, dissolution, or winding up of the Company, whether voluntary or involuntary, each holder of shares of Series A Convertible Preferred Stock will be entitled to receive, before any distribution of assets is made to holders of common stock or any other stock of the Company ranking junior to the Series A Preferred Stock as to dividends or liquidation rights, an amount equal to \$0.001 per share plus the amount of any accrued but unpaid Series A Dividends due thereon for each share up to the date fixed for distribution. After payment of the full Series A Liquidation Amount, holders of shares of Series A Convertible Preferred Stock will not be entitled to participate any further in any distribution of assets by the Company.

The holders of the Series A Convertible Preferred Stock will have ten votes per Series A Convertible Preferred Stock.

## **NOTE 5 – DEBT**

### ***(A) Line of Credit – Bank***

At March 31, 2016 and June 30, 2015, the Company had a line of credit from a bank for short-term borrowing in the amount of \$25,000, which bears interest at floating rates. As of March 31, 2016 and June 30, 2015 the interest rate was 11.75%. This line is unsecured, payable on demand and borrowings amounted to \$25,000 at March 31, 2016 and June 30, 2015. Total interest expense associated with the line of credit was approximately \$2,000 for the year ended June 30, 2016 and 2015. As of June 30, 2016 the Company was in default on its line of credit.

### ***(B) Notes Payable***

During fiscal 2005 and 2006, the Company, through its PC Products subsidiary, issued notes payable in the aggregate amount of \$3,350,000, which bear interest at the rate of 10% per year. These notes matured in May and June 2006. In addition, during the term that the notes are outstanding, the noteholders are entitled to receive an amount equal to 20% of the gross margin from PC Products sales during the period that the notes are outstanding. Total interest expense on these notes payable was approximately \$336,000 for the year ended June 30, 2016 and 2015. As of June 30, 2016 the Company was in default on these notes payable.

### ***(C) Other Secured Financings***

During fiscal 2005, the Company entered into a month-to-month agreement with a factoring company to provide financing for up to \$375,000 of qualified accounts receivable and related inventory (the “Factor Base”). At June 30, 2016 and 2015 borrowings under this agreement were \$300,000. The borrowings are secured by all of the Company’s personal property including accounts receivable, inventory and fixed assets. Under the terms of the agreement, the Factor may advance to the Company up to 80% of the Factor Base. The Company pays a monthly factoring fee equal to 3% of the Factor Base. During the year ended June 30, 2016 and 2015, such fees were \$128,000, were included in interest expense and have not been paid. As of June 30, 2014, the Company was in default on these notes payable and issued 11,150,000 shares of the Company’s common stock as partial settlement against these notes.

### ***(D) Convertible Notes Payable***

The Company issued convertible notes payable in settlement of accrued consulting fees in the aggregate of \$345,000 (\$7,500 as of and effective June 30, 2009; \$37,500 as of and effective June 30, 2010; and \$60,000 as of and effective June 30, 2011, 2012, 2013, 2014 and 2015). These notes do not bear any interest but are convertible into shares of the Company’s common stock at \$0.001. As of June 30, 2016, none of these notes have been converted.

The Company issued convertible notes payable in settlement of accrued consulting fees, accrued wages and accounts payable in the aggregate of \$107,500 (\$86,500 as of and effective April 1, 2014 and \$21,000 as of and effective June 30, 2015). These notes do not bear any interest but are convertible into shares of the Company’s common stock at \$0.001. As of June 30, 2016, none of these notes have been converted.

The Company issued convertible notes payable in settlement of accrued rent and interest in the aggregate of \$225,200 as of and effective April 1, 2014. These notes do not bear any interest but are

convertible into shares of the Company's common stock at \$0.001. As of June 30, 2016, none of these notes have been converted.

The Company issued convertible notes payable in settlement of accrued consulting fees in the aggregate of \$72,000 (\$51,000 as of and effective April 1, 2014 and \$21,000 as of and effective June 30, 2015). These notes do not bear any interest but are convertible into shares of the Company's common stock at \$0.001. As of June 30, 2016, none of these notes have been converted.

The Company issued convertible notes payable in settlement of accrued consulting fees and interest in the aggregate of \$110,300 (\$89,300 as of and effective April 1, 2014 and \$21,000 as of and effective June 30, 2015). These notes do not bear any interest but are convertible into shares of the Company's common stock at \$0.001. As of June 30, 2016, none of these notes have been converted.

The Company issued convertible notes payable in settlement of accrued wages in the aggregate of \$100,000 as of and effective April 1, 2014. These notes do not bear any interest but are convertible into shares of the Company's common stock at \$0.001. As of June 30, 2016, none of these notes have been converted.

The Company issued convertible notes payable in settlement of accrued wages and accrued consulting fees in the aggregate of \$108,300 as of and effective April 1, 2014. These notes do not bear any interest but are convertible into shares of the Company's common stock at \$0.001. As of June 30, 2016, none of these notes have been converted.

The Company issued convertible notes payable in settlement of accrued wages and accrued consulting fees in the aggregate of \$200,000 as of and effective April 1, 2016. These notes do not bear any interest but are convertible into shares of the Company's common stock at \$0.001. As of June 30, 2016, none of these notes have been converted.

#### ***(E) 8% Convertible Notes Payable***

During the quarter ended September 30, 2009, the Company issued convertible notes payable in the aggregate amount of \$7,000, which bear interest at the rate of 8% per year and matured September 2010. Total interest expense on these notes payable approximately \$600 for the years ended June 30, 2016 and 2015. As of June 30, 2016, the Company was in default on these notes payable.

During the quarter ended March 31, 2010, the Company issued notes payable in the aggregate amount of \$5,000, which bears interest at the rate of 8% per year and matured February 2010. Total interest expense on these notes payable was approximately \$400 for the years ended June 30, 2016 and 2015. As of June 30, 2016, the Company was in default on these notes payable.

During the quarter ended June 30, 2010, the Company issued convertible notes payable in the aggregate amount of \$17,000, which bear interest at the rate of 8% per year. Total interest expense on these notes payable was approximately \$1,400 for the years ended June 30, 2016 and 2015. As of June 30, 2016, the Company was in default on these notes payable.

During the quarter ended September 30, 2010, the Company issued notes payable in the aggregate amount of \$8,000, which bears interest at the rate of 8% per year and matured February 2011. Total interest expense on these notes payable approximately \$600 for the years ended June 30, 2016 and 2015. As of June 30, 2016 the Company was in default on these notes payable.

During the quarter ended December 31, 2011, the Company issued notes payable in the aggregate amount of \$3,000, which bears interest at the rate of 8% per year. Total interest expense on these notes

payable was approximately \$250 for the years ended June 30, 2016 and 2015. As of June 30, 2016 the Company was in default on these notes payable.

During the quarter ended March 31, 2012, the Company issued notes payable in the aggregate amount of \$3,000, which bears interest at the rate of 8% per year. Total interest expense on these notes payable was approximately \$250 for the years ended June 30, 2016 and 2015. As of June 30, 2016 the Company was in default on these notes payable.

During the quarter ended March 31, 2012, the Company issued notes payable in the aggregate amount of \$8,000, which bears interest at the rate of 8% per year. Total interest expense on these notes payable was approximately \$650 for the years ended June 30, 2016 and 2015. As of June 30, 2016 the Company was in default on these notes payable.

During the quarter ended June 30, 2012, the Company issued notes payable in the aggregate amount of \$9,000, which bears interest at the rate of 8% per year. Total interest expense on these notes payable was approximately \$750 for the years ended June 30, 2016 and 2015. As of June 30, 2016 the Company was in default on these notes payable.

During the quarter ended September 30, 2012, the Company issued notes payable in the aggregate amount of \$5,000, which bears interest at the rate of 8% per year. Total interest expense on these notes payable was approximately \$450 for the years ended June 30, 2016 and 2015. As of June 30, 2016 the Company was in default on these notes payable.

During the quarter ended June 30, 2013, the Company issued notes payable in the aggregate amount of \$5,000, which bears interest at the rate of 8% per year. Total interest expense on these notes payable was approximately \$400 for the years ended June 30, 2016 and 2015. As of June 30, 2016 the Company was in default on these notes payable.

During the quarter ended December 31, 2013, the Company issued notes payable in the aggregate amount of \$9,000, which bears interest at the rate of 8% per year. Total interest expense on these notes payable was approximately \$800 for the years ended June 30, 2016 and 2015. As of June 30, 2016 the Company was in default on these notes payable.

During the quarter ended March 31, 2014, the Company issued notes payable in the aggregate amount of \$6,000, which bears interest at the rate of 8% per year. Total interest expense on these notes payable was approximately \$500 for the years ended June 30, 2016 and 2015.

During the quarter ended June 30, 2014, the Company issued notes payable in the aggregate amount of \$71,000, which bears interest at the rate of 8% per year. Total interest expense on these notes payable was approximately \$6,000 for the years ended June 30, 2016 and 2015.

During the quarter ended September 30, 2014, the Company issued notes payable in the aggregate amount of \$5,000, which bears interest at the rate of 8% per year. Total interest expense on these notes payable was approximately \$400 and \$300 for the years ended June 30, 2016 and 2015, respectively.

During the quarter ended September 30, 2014, the Company issued notes payable in the aggregate amount of \$5,000, which bears interest at the rate of 8% per year. Total interest expense on these notes payable was approximately \$400 and \$300 for the years ended June 30, 2016 and 2015, respectively.

During the quarter ended September 30, 2014, the Company issued notes payable in the aggregate amount of \$3,000, which bears interest at the rate of 8% per year. Total interest expense on these notes payable was approximately \$240 and \$180 for the years ended June 30, 2016 and 2015, respectively.

During the quarter ended March 31, 2015, the Company issued notes payable in the aggregate amount of \$5,000, which bears interest at the rate of 8% per year. Total interest expense on these notes payable was less than \$400 and \$200 for the years ended June 30, 2016 and 2015, respectively.

During the quarter ended March 31, 2015, the Company issued notes payable in the aggregate amount of \$1,500, which bears interest at the rate of 8% per year. Total interest expense on these notes payable was approximately \$300 and \$200 for the years ended June 30, 2016 and 2015, respectively.

During the quarter ended December 31, 2015, the Company issued notes payable in the aggregate amount of \$5,000, which bears interest at the rate of 8% per year. Total interest expense on these notes payable was approximately \$300 for the year ended June 30, 2016.

During the quarter ended March 31, 2016, the Company issued notes payable in the aggregate amount of \$5,000, which bears interest at the rate of 8% per year. Total interest expense on these notes payable was less than \$200 for the year ended June 30, 2016.

During the quarter ended March 31, 2016, the Company issued notes payable in the aggregate amount of \$5,000, which bears interest at the rate of 8% per year. Total interest expense on these notes payable was less than \$200 for the year ended June 30, 2016.

#### **NOTE 6 – COMMITMENTS AND CONTINGENCIES**

During the quarter ended December 31, 2012, the Company began leasing office space under an operating lease on a month-to-month basis at the rate of \$500 per month. Office rent expense was \$6,000 for the years ended March 31, 2016 and 2015.

#### **NOTE 7 – OFF BALANCE SHEET ASSETS**

During the fiscal year ended June 30, 2005 the Company's PC Products subsidiary entered an agreement with a computer hardware manufacturer to, among other things, provide manufacturing services. Under this agreement, the Company advanced funds and purchased inventory for the Company's products, which funds and inventory were used by the manufacturer. After several years of pursuing the matter, in January 2009 the Company entered into an agreement that included a "Stipulation for Entry of Judgment: and Judgment Theron" with the manufacturer confirming that \$3,600,000 was due to the Company. The Stipulation also contained certain requirements for the liquidation of inventory which was valued at approximately \$1,000,000 and for ongoing payments to the Company. As of June 30, 2016 no payments have been received by the Company. Due to the uncertainty in realizing this asset no amounts have been included in the financial statements.

#### **NOTE 8 – INCOME TAXES**

The Company's tax expense differs from the "expected" tax expense for the years ended June 30, 2016 and 2015, as follows:

	2016	2015
State income tax provision	\$ -	\$ -
U.S. Federal income tax provision (benefit)	(240,000)	(250,000)
Effect of research and development costs	-	-
Tax benefit	(240,000)	(250,000)
Valuation allowance	240,000	250,000
	\$ -	\$ -

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of

assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effects of temporary differences that gave rise to significant portions of deferred tax assets and liabilities as of June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Deferred tax assets:		
Research and development costs	\$ 288,000	\$ 288,000
Net operating loss carry forward	<u>5,248,000</u>	<u>5,008,000</u>
Total gross deferred tax assets	<u>5,536,000</u>	<u>5,296,000</u>
Less valuation allowance	<u>(5,536,000)</u>	<u>(5,296,000)</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

As of June 30, 2016 and 2015, the Company had net operating loss carry forwards of approximately \$16,281,000 and \$15,574,000, respectively, for U.S. Federal income tax purposes available to offset future taxable income expiring on various dates through 2027.