Decision Diagnostics Corp.

OTC Pink Management's Discussion & Analysis

Quarterly Report for Period Ended March 31, 2015

Trading Symbol: **DECN**
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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Decision Diagnostics Corp. is a nationwide prescription and non-prescription diagnostics and home testing products distributor. The U.S. FDA, in a manner similar to prescription drugs, regulates diagnostic test kits and at-home patient testing products similarly to the regulation of prescription medicine. The company has, since 2005, contracted with independent pharmacies for use of their prescription drug distribution licenses. However, the products we currently distribute, for the most part, do not require a doctor's prescription for anything other than insurance benefit compliance. Our business model works well in this regulated environment.

Our subsidiaries, Pharma Tech Solutions, Inc. and PDA Services, Inc. operate in several healthcare products distribution channels. In addition our subsidiary Decision IT Corp. engages in the acquisition and holding of Intellectual Property including Patents and Trademarks. From time to time, and given market conditions, we distribute brand name prescription and non-prescription diagnostics products, as well as several lines of ostomy, wound care and post-surgery medical products. Our main product is the Genstrip 50, cleared for market on November 30, 2012. We introduced Genstrip in March 2013. We acquired Genstrip 50 from Shasta Technologies LLC on March 20, 2014. Shasta Technologies had a long-standing difficult relationship with the US FDA and was the subject of a worldwide Safety Notice on April 29, 2014. The company's acquisition of Genstrip 50 was fortuitous given the finality and outcome of Shasta Technologies' troubles with the FDA.

The U.S. FDA cleared the Shasta Genstrip product for sale in the U.S. on November 30, 2012. The worldwide market for at-home blood glucose testing is an estimated $22.5 billion. Genstrip 50 competes directly with one of the largest worldwide platform manufacturer for at-home blood glucose testing, a product currently used daily by over 3 million diabetes afflicted Americans. In addition, since the medical device employed by this legacy platform manufacturers, Genstrip also competes in the overall at-home testing market by offering an economical solution to former users of the legacy platform providers product. In that regard, Genstrip is unique as a major business focus is directed toward diabetics who have changed platforms due to escalating prices.

Throughout 2012 in anticipation of the introduction of Genstrip, we evaluated our brand-name distribution model, a model that provided streams of revenue but extremely low profit margins, and over the course of the last 18 months we have phased out sales of those brand name products that had been a backbone of our distribution business. In addition the brand name products distribution business created a situation where we were selling products that competed directly with our Genstrip 50. Phasing out these brand name products and based on historical order intake rates, our expected revenues for the period ended March 31, 2015 were lowered by approximately $6,750,000.

The company will continue to direct its marketing efforts to ambulatory and semi-ambulatory older Americans afflicted with diabetes and complications caused by diabetes and old age. The company, originally a medical IT company with proprietary IT product lines, acquired its medical products distribution business in late 2004 through a merger with Phoenix, Arizona based CareGeneration, Inc. We have grown the original CareGeneration business through subsequent acquisitions of private businesses and strategic partnerships with larger private pharmacies.

On November 1, 2011 we completed the acquisition of Diagnostic Newco LLC from its owner Kimberly Binder. Diagnostic Newco LLC is a design company that specializes in product packaging design, medical products advertising design and graphic art. Ms. Binder has joined the staff of the company's Pharma Tech Solutions, Inc. subsidiary and has worked closely with the contract manufacturer for Genstrip, making subtle changes to packaging design among other responsibilities. She will also be responsible for the package design for new diagnostic products the company is currently working on. Ms. Binder is also owner of GenstripDirect, LLC, her own distribution company.

We also intend to acquire additional private companies, focusing on small engineering companies that have developed technology requiring either regulatory approval, distribution or both. In December 2011 we made another small acquisition, to acquire the services of Mr. Patrick Deparini. We are moving quickly to achieve our goal of becoming a vertically integrated, full service value added provider of products and services to an ever-growing market. The at-home diabetes testing market continues to grow as diabetics continue to be diagnosed. The market for diabetes testing products is expected to grow from a current $22.5+ billion worldwide base in 2010 to over $32 billion in 2017.

The company's current proprietary product offering, cleared by the FDA for commercial distribution on November 30, 2012, is the Genstrip 50 blood glucose diagnostic test strip for at-home testing. Genstrip is a product conceived and originally designed by Shasta Technologies LLC, and acquired by our Pharma Tech subsidiary on March 20, 2014, fits into a diagnostic product niche and will sell into the world-wide self-test (home test) market that is expected to grow to $32 billion worldwide by 2017. Since Genstrip is a rather unique offering, employing a brand name razor blade only model (diagnostic test strip) into a razor (diagnostic meter)-razor blade (diagnostic test strip) market, the Genstrip 510(k) application presented some unusual challenges for the FDA and an educational challenge/opportunity for the company. Since the company plans additional similar products in the future for other diagnostic platforms, the Genstrip experience, however slow and unresponsive it was, has provided lessons and experience.

Two years (and growing) is a standard development to market timeline for in-vitro diagnostic products similar to Genstrip. As a result of previous delays by Shasta Technologies in completing its FDA approval application [510(k)] and then problems Shasta encountered in prosecuting its original application with FDA staff, the company changed its contractual responsibilities and obligations in June 2011 to include program management, regulatory process management, management of the manufacturing forecasting and distribution processes, and new products planning and development. Further on-going problems encountered by Shasta, which on their face appeared irresolvable, presented the company with an opportunity. On March 20, 2014 our Pharma Tech Solutions, Inc. subsidiary acquired the intellectual property, the marks, and the GenStrip cleared 510(k).

In June 2010 the company was approached by the largest retailer in the world for the distribution and sale of Genstrip at over 5,000 retail stores worldwide. A contract with this retailer was negotiated in September 2010 and subsequently renegotiated and renewed in April 2011, and as soon as the retail contract was agreed to and as a means to conduct market research, the company began seeking pre-conditioned letters of intent (pre-orders) for Genstrip, while continuing the prosecution of the 510(k) application before the FDA. Discussions with this retailer and other similarly situated retailers have been on hiatus since our litigation with Lifescan, Inc. began in earnest in late March 2013. Lifescan Inc. is a division of Johnson & Johnson.

Currently that market is dominated by four large pharmaceutical manufacturers who provide very similar and equally focused products, selling at essentially equal prices. Genstrip's introduction, even with the fits and starts, will not only allow the company to achieve market share but because of the business model to be employed by Genstrip is different than those models employed by the major market players, the company may be able to change the market, lowering average price or allowing for increased testing by diabetics for a lesser price, thereby affecting all market segments. The company's major market focus is to pharmacy chains, grocery chains with in-store pharmacies, large all purpose retailers with in-store pharmacies, and group buying and chain pharmacy organizations. In the recent past our model might have been called a private label model or a value added model, but with the advent of the July 2013 changes to Medicare (and followed by private insurers), pharmacy business models are now blurred.

We also offer information technology solutions in several medical care market channels by providing physicians with information at the point of care. Our products, unlike those from many other medical information companies, make use of smart cell phones such as the Apple iPhone, the Palm Pre, the Google Droid and a wide selection of Microsoft Windows based smart phones and operate in either in a wireless or "wired" mode, which allow physicians to carry, access and update their patients' histories, also known as electronic medical records or EMR, medication data, and best care guidelines - *all at the point of care*, or from any other location the physician may be located. In addition, the company's products employ proprietary mathematical game theory features adapted

by the company for medical use that allow acceptance of diagnoses and treatment protocols where the medical information may have originated from one or several locations and one time or several times.

In October 2014 we adopted a value added/private label business model to address the issues brought to our market by the radical reimbursement changes by the federal Medicare program. We also hired a market executive with over 40 years of experience to implement our new strategy.

In March 2015 we acquired patents which shall serve our business interests now and into the future. We finalized an arrangement with Alpha Capital Anstalt ("Alpha") on March 27, 2015 whereby Alpha purchased an 18-month, 15% OID derivative instrument in the amount of $277,500 from the company to facilitate the acquisition of these patents. Terms of this agreement with Alpha, which will be filed in total with our 2Q 2015 Quarterly Report, call for a 15% OID with both redemption and conversion features and Warrants (for follow-on investment). The conversion feature set the conversion price as the closing price of the company's common stock on March 27, 2015 less $.02 per share.

We have received multiple inquiries from companies interested in perhaps collaborating with the company for the implementation of its cell phone centric technologies MD@Hand and MD@Work. However, the market available for products similar to MD@Hand and MD@Work has changed since its introduction in 2009. The legal challenges to the health care law and the federal government's inability to enact regulations have altered the landscape, again. We remain in discussions with multiple concerns for the marketing of our MD@ products, and any agreement we may enter will require us to provide contract software programming, providing a new source of revenue for the company. In addition to any proposed partnerships, we continue to discuss alternative propositions with other interested companies ranging from clinical laboratories, service organizations owned or aligned with medical health insurers, a medical content provider and legacy healthcare systems companies. There remains sustained interest in our MD@ products and technology. All of our discussions are with companies are much larger than Decision Diagnostics. We may or may not entertain additional proposed partnerships for our implementation of the cell phone centric technologies, which has been hindered, as has the overall market, by the slow implementation of regulations, protocols and data formats by the Federal government, as well as a change in previously announced Federal government monetary incentives.

In May 2010, we entered into agreement with Shasta Technologies, Inc. and Broadtree, Inc. This agreement granted our Pharma Tech Solutions, Inc. subsidiary the exclusive marketing rights to a new diagnostic product not yet on the market named Shasta Genstrip ("Genstrip"). The Genstrip product was developed to compete against the market leader in the $20 billion at home testing market. In April 2011, the company renegotiated its agreement changing its many roles and adding responsibility for regulatory approval, manufacturing and forecasting, international sales and additional sales markets in the U.S. On March 20, 2014 we acquired the GenStrip intellectual property, its marks and the cleared 510(k). On April 30, 2014 we implemented our FDA mandated Quality plan and are now operating as the manufacturer (operator) of GenStrip.

We currently employ five full-time staff at our executive office located at 2660 Townsgate Road, Suite 300, Westlake Village, California 91361. In addition, we maintain two full-time and seven part-time positions between our distribution centers located in Florida, Arizona, California and New Jersey. Our telephone number is (805) 446-1973 and our website addresses are www.decisiondiagnostics.com and www.pharmatechdirect.com

Business activities throughout the next twelve months:

The company's business on a day-to-day basis includes the distribution of our GenStrip 50, and the distribution of prescription and non-prescription diagnostics, at-home testing, post-surgical products.

Beginning in November 2009, we introduced our cell-phone centric medical IT products that offer solutions in medical care and management by providing physicians with information at the point of care. Unlike other medical information systems using standard computer terminals or even palm-sized computers (PDA's), our software applications operate on a series of late generation smart e-cell phones including the Apple iPhone, the Palm Pre, the Google Droid, several makes of RIM's Blackberry and many versions of the Microsoft Windows smart phones. Our products allow physicians to access and update their patients' histories, medication data, and best care guidelines - *all at the point of care*. The company's Electronic Medical Records software is believed to be the first

EMR application running on any palm sized mobile device. Recently we ported our software to run on a series of pad computers such as Apple iPad and the 'Droid powered pads.

Our business objectives include:

1. The practice of specializing in the distribution of Genstrip 50 and several brand-name medical diagnostic and medical disposable products associated with the on-going care of diabetes-inflicted patients, and the world-wide distribution of our new proprietary diagnostic product Genstrip 50.
2. Combining our wholesale and retail drug distribution with our cell phone centric technologies, creating wholesale and retail ePharmacies similar in function to existing Internet pharmacies but directed to serving the large base of underinsured and uninsured Americans; and
3. Providing medical communication and EMR medical history and storage devices based on networks of smart cell phones These products are believed to provide benefits of on demand medical information to private practice physicians, licensed medical service providers such as diagnostic testing laboratories, and medical insurers. We have created cell phone-centric products and a suite of Internet enhanced software applications that include those features that specifically respond to the requirements of the practicing physician and the regulations currently being promulgated by the Federal government.

We also have adapted our medical communications and EMR technologies to service the real estate management and hotel/motel/convenience industries in their own commercial settings. In March 2010, our Board approved the sale of the company's hotel/motel technologies and business base so we can focus on our core medical IT and medical distribution businesses. In past years when we had market focus on the hotel/motel industry, our real estate and hotel/motel objectives include building electronic commerce networks based on personal digital assistants (PDA) and pad based computers to the hotels, motels and single building, multi-unit apartment buildings with a desire to offer local advertising and electronic services to their tenants/guests.

Financing Requirements

At March 31, 2015, we had cash of $1,159,085 and negative working capital of $358,666. We anticipate that we will require $56 million in trade debt financing to finance our expected sales of Genstrip. In March 2012 we renewed our agreement with Alpha Credit Resources to obtain this debt financing. In November 2013 we executed a new line of credit with Alpha Credit Resources, replacing our pervious line. The new credit line is for $12.5 million, but with the velocity of our product sales, could yield over $250 million in annually available credit. We will from time to time continue to seek a combination of equity and long-term debt financing as well as other traditional cash flow and asset backed financing to meet our financing needs and to reduce our overall cost of capital. Additionally, in order to accelerate our growth rate and to finance general corporate activities, we may supplement our existing sources of funds with financing arrangements at the operating system level or through additional short-term borrowings. As a further capital resource, we may sell or lease certain rights or assets from our portfolio as appropriate opportunities become available. However, there can be no assurance that we will be able to obtain any additional financing, on acceptable terms or at all.

Legal Proceedings

Matters concerning Lifescan Scotland, LLC , Lifescan, Inc. and Johnson and Johnson Inc. vs. Shasta Technologies LLC, InstaCare Corp. (now known as Decision Diagnostics Corp.), Pharma Tech Solutions, Inc. et al.

On September 9, 2011, Lifescan Scotland, Ltd. ("Lifescan") brought suit against Shasta Technologies, LLC (Shasta), InstaCare Corp. (now known as Decision Diagnostics Corp.), Pharma Tech Solutions, Inc., and Conductive Technologies, Inc. in the United States District Court, Northern District of California, Case # 5:11cv04494 ("the Patent Case"), alleging infringement of U.S. Patent Nos. 5,708,247 and 6,241,862 and seeking injunctive relief and damages. InstaCare Corp. (now known as Decision Diagnostics Corp.) and Pharma Tech Solutions answered the complaint, denying all of its material allegations and asserting a number of affirmative defenses. On December 10, 2012, Lifescan amended its complaint to also allege infringement of U.S. Patent No. 7,250,105. InstaCare Corp. (now known as Decision Diagnostics Corp.) and Pharma Tech Solutions, Inc. are entitled to be indemnified by

Shasta as additional insured's on Shasta's IP policy; the legal fees associated with our defense have been and are being paid by this policy. The companies also carry insurance and have demanded a defense from their own carriers. Since this suit remains unresolved, management intends to continue its vigorous defense of this lawsuit. The company's counsel serves as lead counsel in these disputes with the Johnson and Johnson divisions.

On December 14, 2012, Lifescan Inc. and its parent company (Johnson and Johnson, Inc.) filed suit against Shasta Technologies, LLC (Shasta), InstaCare Corp. (now known as Decision Diagnostics Corp.), Pharma Tech Solutions, Inc., and Conductive Technologies, Inc. in the United States District Court, Northern District of California, Case # 3:12cv06360 ("the Trademark Case"). This separate suit concerning all of the same parties as the Patent Case alleges Trademark Infringement under the federal Lanham Act. InstaCare Corp. (now known as Decision Diagnostics Corp.) and Pharma Tech Solutions, Inc. have made a claim against their insurance policies for a defense, as has Shasta Technologies, LLC. Since this suit remains unresolved, management intends to vigorously defend this lawsuit. This suit has now been consolidated into the above discussed patent infringement suit.

On March 19, 2013, the trial judge in the Patent Case granted a motion brought by Plaintiffs for a Preliminary Injunction concerning the '105 patent. On March 22, 2013, Defendants filed their Notice of Appeal with the United States District Court, Northern District of California, and on March 25, 2013, Notice of Appeal was filed with the United States Court of Appeals for the Federal Circuit in Washington, DC. On March 26, the Court of Appeals for the Federal Circuit accepted the companies' Notice as Case # 13-1271 and set an expedited briefing calendar that began on April 12, 2013. In addition, the companies filed motions in both the District and Appellate courts to stay the Preliminary Injunction, pending the outcome of the appeal. The Court of Appeals for the Federal Circuit granted this Motion on April 29, 2013. The company made its arguments at the oral part of the appeals process in front of the United States Court of Appeals for the Federal Circuit in Washington, DC on June 5, 2013. A ruling from the three judge panel in the United States Court of Appeals for the Federal Circuit in Washington, DC was made on December 4, 2013. The majority of the three judge panel, in a Precedential decision, ruled that "Rejecting a claim of exhaustion in this case would be particularly problematic because LifeScan would be permitted to eliminate competition in the sale of the strips even though the strips do not embody the claimed invention and are themselves not patentable. Allowing LifeScan to control sale of the strips would be akin to allowing a tying arrangement whereby the purchasers of the meters could be barred from using the meters with competing strips." Throughout the month of April 2013, Plaintiffs Lifescan (Johnson and Johnson, Inc.), through their trial counsel sent letters to the company's customers and to the customers of the company's customers (collectively "customers"), that among other things threatened these parties should they purchase or continue to purchase the company's Genstrip product. The company has copies of several of these letters. The sending of these letters continued after the initial action of the United States Court of Appeals for the Federal Circuit in Washington, DC. On May 3, 2012 the company brought a Motion for Contempt against Plaintiff Lifescan (Johnson and Johnson, Inc.) for among other things using documents provided during litigation Discovery and marked as Highly Confidential and for Attorneys Eyes Only. The District Court judge ruled on November 8, 2013 that Lifescan should be sanctioned for their actions, but stopped short of a contempt ruling.

In April 2013, as a part of its defense in the September 9, 2011, Lifescan Scotland, Ltd (now including Lifescan, Inc.) suit, the company filed with the USPTO the Institution of *Inter Partes* Review under *37 C.F.R. § 42.108,* requesting that the USPTO review the claims in J&J's Patent 7,250,105, the Patent that is J&J's foundation in the September 9, 2011 suit. On August 15, 2013 the company received written notice from the U.S. Patent and Trademark Office ("USPTO") that a four judge panel determined, in Case IPR2013-00247, (J&J) Patent 7,250,105, that "…(the company's subsidiary) Pharmatech has demonstrated that there is a reasonable likelihood of its proving a lack of patentability of claims 1-3 of the [7, 250,] 105 patent by a preponderance of the evidence." The J&J Patent 7,250,105 is the primary patent being litigated in the September 2011 suit. This preliminary ruling by USPTO in August, followed by the ruling in November 2013 by the justices in the United States Court of Appeals for the Federal Circuit in Washington, DC, has changed entirely the course of the Lifescan patent infringement action.

On March 28, 2013, InstaCare Corp. (now known as Decision Diagnostics Corp.) and PharmaTech Solutions, Inc. filed anti-trust counterclaims against LifeScan, Inc. and LifeScan Scotland Ltd. (collectively, "LifeScan") in the Patent Case. These counterclaims assert violations of the Sherman Antitrust Act, which carry with them, if successful, awards of treble damages, attorneys' fees, and injunctive relief. Decision Diagnostics Corp. and Pharma Tech Solutions, Inc. allege that the LifeScan parties, which are subsidiaries of pharmaceutical giant Johnson & Johnson, have violated both Sections 1 and 2 of the Sherman Act. Section 1 makes illegal every "contract,

combination ... or conspiracy in restraint of trade." Section 2 forbids monopolization and attempts to monopolize a product market. Decision Diagnostics Corp. and Pharma Tech Solutions, Inc. allege in their counterclaims that both prongs of the Act have been violated, by among other things, LifeScan's instituting of baseless patent litigation, said litigation filed even before Genstrip had been cleared by the FDA, against Decision Diagnostics Corp. (f/k/a Instacare Corp.) and Pharma Tech Solutions, Inc. intended to exclude the GenStrip from competing in a market dominated by LifeScan. On August 1, 2013 InstaCare Corp. (now known as Decision Diagnostics Corp.) and PharmaTech Solutions, Inc. moved to file additional false advertising counterclaims against LifeScan, Inc. and LifeScan Scotland Ltd. In October 2013 the parties executed an agreement stipulating a Stay in the on-going litigation. Subsequently the United States Court of Appeals for the Federal Circuit in Washington, DC ruled substantially in favor of the companies' arguments, citing the doctrine of patent exhaustion in their ruling. As such the company expects to make Motion for or to stipulate to the removal of the stay order and to resume any remaining litigation to its conclusion.

In August 2014 the patent litigation reached its Markman Hearing where technical arguments were made to the court by both sides. In early December 2014 the trial judge ruled on the outcome of the Markman Hearing, making favorable rulings for Decision Diagnostics, Pharma Tech Solutions, Inc. et al. and inviting Decision Diagnostics (f/k/a Instacare Corp.) to file a Motion for Summary judgment. Subsequently, Lifescan moved the court to order Mediation on all matters before the court. Mediations were held on January 29, 2015 and February 23, 2015. At the conclusion of the Mediations, defendants Shasta Technologies LLC and Conductive Technologies, Inc. stipulated to Confessions of Judgment and were dismissed from the case. Defendant Shasta Technologies LLC also confessed to patent infringement after 42 months of denial. Decision Diagnostics and Pharma Tech Solutions remain in the case as sole defendants and counter-Plaintiffs.

In March 2015 Lifescan appealed several USPTO IPR rulings against its foundation patent. The appeal was accepted by the Court of Appeals for the Federal Circuit, and shortly after this acceptance the Solicitor General of the United States intervened on the side of the USPTO IPR Petitioner Pharma Tech Solutions, Inc.

Results of Operations for the quarters ended March 31, 2015 and 2014 compared.

The following tables summarize selected items from the statement of operations for the quarters ended March 31, 2015 compared to 2014.

INCOME:

	For the Quarters Ended March 31,		Increase (Decrease)	
	2015	2014	$	%
Revenue	$ 89,104	$ 220,502	$ (131,398)	(59.59%)
Cost of sales	63,158	9,270	53,888	581.32%
Gross profit	$ 25,946	$ 211,232	$ (185,286)	(87.72%)
Gross profit margin	29.12%	95.80%	(66.68%)	

During fiscal 2013, we determined to discontinue our wholesale distribution business. The decline in revenue was anticipated and the direct result of our phasing out of sales of brand name diagnostic products as a result of the Medicare Competitive Bidding that went into effect January 1, 2013 and locked into place in all 50 states as of July 1, 2013. The net effect of these Medicare changes lowered reimbursement rates for all of the company's existing product lines by 68%. In addition, the overall at home testing market was already being hindered by the general poor economic conditions, longer payment cycles from insurers, additionally, our business model did not included the sale of retail brand-name products. These conditions may continue throughout 2015, but will enhance sales of our GenStrip 50 as we continue to develop our marketing and distribution channels. Our increase in cost of sales is also as expected due to a majority of the 2014 revenue being professional fees with no associated costs.

OPERATING EXPENSES:

Expenses:	2015	2014	3 Months	% Δ
Advertising	-	88,658	(88,658)	-100.00%
General & administrative expenses	79,299	60,882	18,417	30.25%
Consulting	17,798	33,981	(16,183)	-47.62%
Payroll expense	15,116	6,412	8,704	135.75%
Professional fees	1,308,891	303,110	1,005,781	331.82%
Total expenses	1,421,104	493,043	928,061	188.23%

General and administration expenses include office expenses (including bad debt, rent, cleaning and maintenance, utilities, and telephone), insurance, and bank charges. During the quarter ended March 31, 2015, general and administration expenses increased by $18,417 to $79,299 (2014 - $60,882). The increase was due primarily to casual labor of $29,605 (2014 - $10,123). General and administration expenses historically account for approximately 2% of our total revenue. During the current year the amount we have spent on our general and administrative costs has increased, however due to our decline in revenue the expense as a percentage of revenue has increased to 89%. As we experience growth in revenues, general and administration expenses are expected to decrease on a percentage of revenue basis.

Consulting expenses for the quarter ended March 31, 2015 decreased by $16,183 to $17,798 (2014 - $33,981). Historically, management shifts its labor requirements between, outside consultants, casual labor and in-house management dependent upon availability and cost effectiveness of resources. During 2014, the majority of our labor was derived from the use of outside consultants. Our compensation structure is comprised of both cash and equity of the Company. We intend to continue to compensate our consultants with equity of the Company into 2015 until such time our revenues provide sufficient cash flows to cover these expenses. The launch of our Genstrip 50 product in March 2013 required substantial adding of resources. The company decided to add temporary consulting talent rather than hiring and educating its own talent. We have more recently begun replacing our consultants with alliances with industry independent contractors.

Professional fees include accounting services, legal fees and regulatory reporting compliance. The significant increase in professional fees of $1,005,781 is due primarily to an increase in professional advisement fees of $527,500 and legal fees of $763,153 incurred in connection with our current litigation wherein we engaged additional legal counsel to assist in the review of potential new sales/distributing agreements as well as to review general corporate matters. We anticipate our legal fees to continue until all ongoing litigation issues with the division of Johnson & Johnson are resolved.

OTHER INCOME (EXPENSE):

Other income (expense):	2015	2014	3 Months	% Δ
Financing costs	(16,965)	-	(16,965)	100.00%
Interest expense, net	(71,816)	(62,526)	(9,290)	14.86%
Settlement expense	(204,000)	-	(204,000)	100.00%
Loss on obsolete inventory	-	(153,292)	153,292	100.00%
Total other income (expense)	(292,781)	(215,818)	(76,963)	35.66%

Our other income and expense increased an overall $76,963 from $215,818 in 2014 to $292,781 in 2015. Other income and expense includes costs related to our financing activities, more specifically the financing costs ($16,965) associated with our debt and equity offerings.

During the quarter ended March 31, 2015, we were in violation of certain provisions of one of our debt agreements which required liquidated damages to be paid with shares of our common stock. We incurred settlement expenses totaling $204,000 (2014 - $0) as a result of these liquidated damages.

We recorded a loss on obsolete inventory of $153,292 in 2014 due to the FDA Safety Warning directed toward Shasta Technologies, as compared to $0 in 2015.

We recorded a net loss for the quarter ended March 31, 2015 of $1,689,151 compared to a net loss in 2014 of $497,629. Our total operating and non-operating expenses in 2015 totaled $1,713,885, compared to $708,861 in 2014, representing an overall increase in total expenses of $1,005,024. This change was primarily the result of ceasing our brand name distribution business model, said changes resulting from the Medicare Competitive Bidding regulations that went into effect in 2013, thereby lowering reimbursement rates by 68%.

Liquidity and Capital Resources

A critical component of our operating plan impacting our continued existence is the ability to obtain additional capital through additional equity and/or debt financing. We do not anticipate generating sufficient positive internal operating cash flow until later in 2015, as a result of several factors, including our on-going litigation with a division of Johnson & Johnson, and the change in our status from exclusive distributor of our GenStrip 50, to the manufacturer of this product (mow in process), complete additional financial service company acquisitions and generate substantial revenues, which may take the next few years to fully realize. We believe we are adequately capitalized in the near term, but as our Genstrip 50 product grows along its product life cycle, we may not obtain the necessary capital to pursue our strategic plan, and in the ultimate negative situation, we may have to cease or significantly curtail our operations. This would materially impact our ability to continue operations.

As of March 31, 2015, we had cash and cash equivalents of $1,159,085, inventory of $34,992, prepaid expenses of $1,591,500, and accounts receivable of $299,202. Net cash used by operating activities for the quarter ended March 31, 2015 was approximately $608,027. Current liabilities of $3,443,444 consisted of: $555,022 of accounts payable and accrued liabilities, accrued interest of $340,852, subscriptions payable of $77,500, and notes payable of $2,470,070. As of March 31, 2015, we have a negative working capital of $358,666.

The accompanying financial statements have been prepared contemplating a continuation of the Company as a going concern. The Company has reported an accumulated deficit of $36,982,130 and a net loss of $1,689,151 for the quarter ended March 31, 2015. Additional investments are being sought, but we cannot guarantee that we will be able to obtain such investments. Financing transactions may include the issuance of equity or debt securities, obtaining credit facilities, or other financing mechanisms. However, the trading price of our common stock and conditions in the U.S. stock and debt markets could make it more difficult to obtain financing through the issuance of equity or debt securities. Even if we are able to raise the funds required, it is possible that we could incur unexpected costs and expenses, fail to collect significant amounts owed to us, or experience unexpected cash requirements that would force us to seek alternative financing. Further, if we issue additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. If additional financing is not available or is not available on acceptable terms, we will have to curtail our operations

Cash to Operating Activities

During the quarter, ended March 31, 2015, operating activities used cash of $608,027 compared to using cash of $165,229 in 2014. Our operating loss for 2015 was $1,689,151 and included shares issued for liquidated damages settlements of $204,000 (2014 - $0), shares issued for financing fees of $16,965 (2014 - $0), and shares issued for consulting and compensation expenses $527,500 (2014 - $237,750). Our change in accounts receivables increased $31,711 (2014 – $78,941). Prepaid expenses increased by $10,000 (2014 – $20,195). Inventory decreased $56,894 in 2015 (2014 - $0). Accounts payable and accrued liabilities increased by $245,660 (2014 –decreased $11,832) due to the amount payable for two acquired patents at March 31, 2015. Accrued interest increased by $71,816 (2014- $52,326) related to our convertible debt offering. Our contingent liabilities remained constant in 2015 as compared to 2014 due to the recognition of liability due to our involvement in legal matters. Our year to year change in Cash to Operating Activities was the direct result of three factors: (a) the changes to Medicare reimbursement taking effect on July 1, 2013, (b) the on-going litigation with the division of Johnson & Johnson, and (c) the inability of the previous GenStrip manufacturer Shasta Technologies to implement an acceptable quality plan with the USFDA, and in general manage the manufacturing of a regulated healthcare device.

Cash from Investing Activities

During the quarter ended March 31, 2015, investing activities used cash of $260,742 (2014 - $51,000) due primarily to the acquisition of two patents. On March 27, 2015 we acquired special intellectual property which shall serve our business interests now and into the future. We finalized an arrangement with Alpha Capital Anstalt ("Alpha") on March 27, 2015 whereby Alpha purchased an 18-month 15% OID derivative instrument in the amount of $277,500 from the company to facilitate the acquisition of this intellectual property. Terms of this agreement with Alpha, which will be filed in total with our 2Q 2015 Quarterly Report, call for a 15% OID with both redemption and conversion features and 50% Warrant coverage (for follow-on investment). The conversion feature in the instrument set the conversion price as the closing price of the company's common stock on March 27, 2015.

Cash from Financing Activities

During the quarter ended March 31, 2015, financing activities produced net cash of $277,852 (2014 – $201,500). This change is primarily a result of the sale of equity and issuance of new debt instruments.

Internal and External Sources of Liquidity

Alpha Credit Resources LLC (formerly Centurion Credit)

On November 17, 2007, we entered into an agreement with Alpha Credit Resources LLC to secure a $1,000,000 revolving credit facility that is geared specifically to our business. As of October 2008, the company renewed its agreement with Alpha Credit Resources LLC until November 17, 2009 and as an inducement to renew the credit line was increased to $2,000,000, with additional seasonal increases to $2,500,000. In June 2010 we began discussions with Alpha Credit for an additional $6.0 million credit facility to provide available credit to finance sales of our new at-home testing diagnostic product. The company last borrowed funds using the credit line in the period ended September 30, 2011. The agreement matured on December 31, 2011 without renewal. In March of 2012, we executed a renewal agreement with Alpha Credit. The renewal period matured on December 31, 2012. In December 2013 we again renewed our credit line with Alpha Credit, expanding our credit line to $12.5 million (Fourth Omnibus Renewal). As a part of the most recent renewal agreement all previous accrued debt and interest owed Alpha Credit was reduced to $0.00.

Cash Flow.

Since inception, we have primarily financed our cash flow requirements through the issuance of common stock, the issuance of notes and sales generated income. With anticipated growth in 2015 we may, during our normal course of business, experience net negative cash flows from operations, pending receipt of revenue, which often are delayed because of the nature of the healthcare industry. Further, we may be required to obtain financing to fund operations through additional common stock offerings and bank or other debt borrowings, to the extent available, or to obtain additional financing to the extent necessary to augment our available working capital.

Satisfaction of our cash obligations for the next 12 months.

As of March 31, 2015, our cash balance was $1,159,085. Our plan for satisfying our cash requirements for the next twelve months is through additional equity, third party financing, and/or debt financing. We anticipate sales-generated income during that same period of time, but do not anticipate generating sufficient amounts of positive cash flow to meet our working capital requirements. Consequently, we intend to make appropriate plans to insure sources of additional capital in the future to fund growth and expansion through additional equity or debt financing or credit facilities.

As we expanded operational activities, we may continue, from time to time, to experience net negative cash flows from operations, pending receipt of sales or development fees, and will be required to obtain additional financing to fund operations through common stock offerings and debt borrowings to the extent necessary to provide working capital. It was not until the company entered into the agreement with Alpha Credit Resources, LLC that the company could fill orders for patients and customers on a continuous basis. Until the Alpha Credit line was put in

place, we managed to keep a small portion of our distribution activities going when our limited resources allowed us which remains true as of this filing.

Predictions of future operating results are difficult to ascertain due to our historic operating activities. The recent addition of a credit line has helped but we have found it increasingly difficult to transact commerce in the very cash intensive prescription drug industry. Thus, our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stages of commercial viability, particularly companies in new and rapidly evolving technology markets. Such risks include, but are not limited to, an evolving and unpredictable business model and the management of growth. To address these risks we must, among other things, implement and successfully execute our business and marketing strategy, continue to develop and upgrade technology and products, respond to competitive developments, and continue to attract, retain and motivate qualified personnel. There can be no assurance that we will be successful in addressing such risks, and the failure to do so can have a material adverse effect on our business prospects, financial condition and results of operations.

Expected purchase or sale of plant and significant equipment.

We do not anticipate the purchase or sale of any plant or significant equipment; as such, items are not required by us at this time.

Going Concern

The financial statements included in this report have been prepared in conformity with generally accepted accounting principles that contemplate the continuance of the Company as a going concern. The Company's cash position is currently inadequate to pay all of the costs associated with testing, production and marketing of products. Management intends to use borrowings and security sales to mitigate the effects of its cash position, however no assurance can be given that debt or equity financing, if and when required will be available. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and classification of liabilities that might be necessary should the Company be unable to continue existence.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results or operations, liquidity, capital expenditures or capital resources that is material to investors.

Significant Event

In April 2015 the company completed voluntary disclosure, periodic financial, and management's discussion and analysis filings (postings) with OTCMarkets, for the purposes of becoming a current voluntary filer. The company's filings were reviewed and the company was granted current filer status with OTCMarkets on April 21, 2015. As part of this process the company filed a Form 15 with the U.S. SEC to relieve them of the need to make voluntary filings with the SEC. On April 22, 2015 the company began the process of reviving their 2014 approved application for a proposed uplisting to the OTCQX market with OTCMarkets