Decision Diagnostics Corp.

OTC Pink Balance Sheet, Statements of Equity & Cash Flows, Footnotes to Balance Sheet

Quarterly Report for Period Ended March 31, 2017

The following pages present the unaudited financial statements along with Statements of Equity and Cash Flows, and the Footnotes to the Balance Sheet for Decision Diagnostics Corp., for the quarters ended March 31, 2017, and 2016. The financial statements have been prepared in accordance with generally accepted accounting principles.

Trading Symbol: **DECN**
CUSIP Number: **243443 108**

Decision Diagnostics Corp.
Condensed Consolidated Balance Sheets
(Unaudited)

		March 31, 2017		December 31, 2016
Assets				
Current assets:				
Cash	$	930,712	$	1,351,860
Accounts receivable, net		458,535		537,131
Inventory		496,955		407,463
Prepaid expenses		1,611,306		1,611,995
Total current assets		3,497,508		3,908,449
Fixed assets:				
Specialty manufacturing equipment		802,315		737,425
		802,315		737,425
Less accumulated depreciation		-		-
Fixed assets, net		802,315		737,425
Other assets:				
Intellectual property		542,875		502,130
Patent licenses, net value		1,075,825		1,075,825
Total other assets		1,618,700		1,577,955
Total assets	$	5,918,523	$	6,223,829
Liabilities and Stockholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	722,902	$	723,171
Accrued interest		331,460		355,055
Contingent legal fees		240,000		240,000
Notes payable and short term debt (Note 5)		1,995,871		2,301,661
Total current liabilities		3,290,233		3,619,888
Contingencies		245,069		245,069
Stockholders' equity (deficit):				
Preferred stock, $0.001 par value, 3,738,500 shares authorized, no shares issued and outstanding as of March 31, 2017 and December 31, 2016		-		-
Preferred series "B" stock, $0.001 par value, 2,500 shares authorized, 1,000 issued and outstanding as of March 31, 2017 and December 31, 2016		2		2
Preferred series "C" stock, $0.001 par value, 10,000 shares authorized, 6,235 and 4,085 shares issued and outstanding as of March 31, 2017 and December 31, 2016		6		6
Preferred series "D" stock, $0.001 par value, 500 shares authorized, no shares issued and outstanding as of as of March 31, 2017 and December 31, 2016		-		-
Preferred series "E" stock, $0.001 par value, 1,250,000 shares authorized, 863,240 and 843,240 issued and outstanding as of March 31, 2017 and December 31, 2016		863		843
Common stock, $0.001 par value, 494,995,000 shares authorized, 89,846,210 and 84,629,908 shares issued and outstanding as of March 31, 2017 and December 31, 2016		89,647		84,431
Common stock unissued, 1,410,000 shares as of March 31, 2017 and December 31, 2016		1,411		1,411
Subscription receivable		(82,250)		(82,250)
Unit offering finders' fees		(321,344)		(321,344)
Additional paid-in capital		44,496,720		44,041,778
Retained (deficit)		(41,801,834)		(41,366,005)
Total stockholders' equity		2,383,221		2,358,873
Total liabilities and stockholders' equity	$	5,918,523	$	6,223,829

The accompanying Notes are an integral part of these financial statements.

Decision Diagnostics Corp.
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended March 31, 2017		Three Months Ended March 31, 2016	
Revenue	$	355,062	$	163,849
Cost of sales		254,533		111,860
Gross profit		100,529		51,989
Expenses:				
General & administrative expenses		120,714		120,167
Consulting		47,197		22,382
Compensation expense		103,621		6,600
Professional fees		184,434		1,259,155
Total expenses		455,965		1,408,304
Net operating (loss)		(355,437)		(1,356,315)
Other income (expense):				
Financing costs		(20,515)		(102,657)
Interest expense, net		(59,877)		-
Total other income (expense)		(80,392)		(102,657)
Taxes				
State		-		(2,400)
Net loss	$	(435,829)	$	(1,461,372)
Add: Dividends declared on preferred stock		-		-
Income available to common shareholders'	$	(435,829)	$	(1,461,372)
Weighted average number of common shares outstanding - basic and fully diluted		86,989,883		57,310,766
Net income (loss) per share - basic and fully diluted	$	(0.01)	$	(0.03)

The accompanying Notes are an integral part of these financial statements.

Decision Diagnostics Corp.

Statements of Shareholders' Equity

(Unaudited)

		Preferred "B"		Preferred "C"		Preferred "E"		Common Stock			
Date	Shareholder	# Shares	Amt	# Shares	Amt	# Shs	Amt	# Shs	Amt	APIC	Total
BALANCE, December 31, 2016		***1,000***	***2***	***6,235***	***6***	***843,240***	***843***	***84,629,908***	***84,430***	***44,041,778***	***2,358,872***
1/9/2017	New Issuance-Alpha Capital Anstalt							971,074	971	98,078	99,050
1/9/2017	New Issuance-Mark Herskowitz							400,000	400	40,400	40,800
1/31/2017	Stock options issued to employees									36,000	36,000
3/1/2017	New Issuance-Alpha Capital Anstalt							989,425	989	107,847	108,837
3/3/2017	New Issuance-Chase Financing					50,000	50			5,950	6,000
3/3/2017	New Issuance-Chase Financing Inc Profit Sh.					70,000	70			8,330	8,400
3/3/2017	Conversion-Chase Financing					(100,000)	(100)	1,400,000	1,400	(1,300)	-
3/3/2017	New Issuance-Robert Herskowitz							560,000	560	66,640	67,200
3/3/2017	New Issuance-R Herskowitz 2011 Irrv. TR							140,000	140	16,660	16,800
3/10/2017	Issuance-Mark Herskowitz							400,000	400	40,400	40,800
3/21/2017	New Issuance-Alpha Capital Anstalt							355,803	356	35,936	36,292
	Net loss										***(435,829)***
BALANCE, MARCH 31, 2017		***1,000***	***2***	***6,235***	***6***	***863,240***	***863***	***89,846,210***	***89,647***	***44,496,720***	***2,383,221***

Decision Diagnostics Corp.
Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Cash flows from operating activities		
Net loss	$ (435,829)	$ (1,461,372)
Adjustments to reconcile net loss to		
net cash (used) by operating activities:		
Shares and options issued for services	14,400	490,000
Options issued for employee compensation	36,000	-
Shares issued for financing fees	20,515	102,657
Changes in operating assets and liabilities		
Accounts receivable	78,596	24,525
Inventory	(89,492)	(105,996)
Prepaid and other assets	689	(187)
Accounts payable and accrued liabilities	(269)	(12,180)
Contingent legal fees	-	240,000
Accrued interest	59,877	-
Net cash (used) by operating activities	(315,513)	(722,553)
Cash flows from investing activities		
Fixed assets	(64,890)	-
Intellectual property	(40,745)	(283,000)
Net cash (used) by investing activities	(105,635)	(283,000)
Cash flows from financing activities		
Proceeds from notes payable	-	275,001
Shares issued and options exercised for cash	-	1,515,000
Net cash provided by financing activities	-	1,790,001
Net decrease in cash	(421,148)	784,448
Cash - beginning	1,351,860	627,128
Cash - ending	$ 930,712	$ 1,411,576
Supplemental disclosures:		
Interest paid	$ -	$ -
Income taxes paid	$ -	$ 2,400
Non-cash transactions:		
Shares and options issued for services	$ 14,400	$ 490,000
Shares issued for financing activities	$ 20,515	$ 102,657
Shares issued for debt and derivative liabilities	$ 389,263	$ 610,316

The accompanying Notes are an integral part of these financial statements.

DECISION DIAGNOSTICS CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

NOTE 1 – Basis of presentation and accounting policies

Basis of Presentation

The condensed consolidated interim financial statements included herein, presented in accordance with United States generally accepted accounting principles and stated in US dollars, have been prepared by us, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these consolidated interim financial statements be read in conjunction with our consolidated financial statements for the period ended December 31, 2016 and notes thereto included in our annual filing. We follow the same accounting policies in the preparation of consolidated interim reports.

Results of operations for the interim periods are not indicative of annual results.

Recent Accounting Pronouncements

Management has analyzed all pronouncements issued during the three months ended March 31, 2017 by the FASB or other authoritative accounting standards groups with future effective dates, and have determined that they are not applicable or are not expected to be significant to our financial statements.

Year-end

We have adopted December 31 as our fiscal year end.

NOTE 2 – Going concern

The accompanying consolidated financial statements have been prepared assuming that we will continue as a going concern. Our ability to continue as a going concern is dependent upon attaining profitable operations based on the development of distributions platforms through which our products that can be sold. We intend to use borrowings and security sales to mitigate the effects of our cash position, however, no assurance can be given that debt or equity financing, if required, will be available. The condensed consolidated 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 we be unable to continue in existence.

NOTE 3 – Fair value

Our financial instruments consist principally of notes payable and lines of credit. Notes payable and lines of credit are financial liabilities with carrying values that approximate fair value. Management determines the fair value of notes payable and lines of credit based on the effective yields of similar obligations and believe all of the financial instruments' recorded values approximate fair market value because of their nature and respective durations.

We comply with the provisions of ASC 820, *"Fair Value Measurements and Disclosures"* ("ASC 820"). ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements required under other accounting pronouncements. ASC 820-10-35, *"Fair Value Measurements and Disclosures - Subsequent Measurement"* ("ASC 820-10-35"), clarifies that fair value is an exit price, representing the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820-10-35 also requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best information available. Assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and/or the risks inherent in the inputs to the model. The Company also follows ASC 825 *"Interim Disclosures about Fair Value of Financial Instruments"*, to expand required disclosures.

ASC 820-10-35 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820-10-35 are described below:

Level 1. Valuations based on quoted prices in active markets for identical assets or liabilities that an entity has the ability to access.

Level 2. Valuations based on quoted prices for similar assets or liabilities, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.

Level 3. Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

We utilize the best available information in measuring fair value. The following table summarizes, by level within the fair value hierarchy, the financial assets and liabilities recorded at fair value on a recurring basis as of March 31, 2017 and 2016:

	FYE 2017 Fair Value Measurements			
	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Intellectual property	$ -	$ -	$ 1,618,700	$ 1,618,700
Liabilities	-	-	-	-
Notes payable	-	(1,995,871)	-	(1,995,871)
Total	$ -	$ (1,995,871)	$ 1,618,700	$ (377,171)

	FYE 2016 Fair Value Measurements			
	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Intellectual property	$ -	$ -	$ 1,015,705	$ 1,015,705
Liabilities	-	-	-	-
Notes payable	-	(1,335,175)	-	(1,335,175)
Total	$ -	$ (1,335,175)	$ 1,015,705	$ (319,470)

NOTE 4 – Equipment – Specialty Manufacturing Instruments

On June 1, 2015, we entered into a wide-ranging manufacturing and product development agreement with a large venture funded Korean concern. On July 8, 2015, we enhanced its role in this agreement through the purchase of, and investment in, computer controlled, specialty manufacturing equipment that is now located in the Korean facility of the Company's R&D and contract manufacturing partner.

During the quarter ended March 31, 2017, we acquired $64,890 in fixed assets pursuant to the manufacturing and product development agreement dated June 1, 2015. We expensed an additional $380,000 for the development of our GenChoice! product which will make use of the Specialty Manufacturing equipment located in Korea.

NOTE 5 – Patents

During the quarter ended March 31, 2017, we capitalized attorney fees related to the continued development and perfection of our patents.

NOTE 6 – Acquisition of Certain Properties

In March 2014, we agreed to acquire certain properties from Shasta Technologies LLC. The agreement covering this acquisition is now the subject of two litigations, one litigation related to the remaining proceeds of an IP defense insurance policy, the other litigation concerning damages the company is trying to collect from Shasta Technologies LLC owing to Shasta's subsequent undisclosed issues with the U.S. FDA. The original purchase price for this property was expected to be $2,000,000 (cash). The company is anticipating offsets much higher than the assets purchase price. We have not yet recorded this acquisition on our books because the acquisition terms have not yet been fully determined and the final acquisition price to be determined by the court. We did register this FDA cleared product with the US FDA in 2014, 2015, 2016, and in 2017. In September 2016 we became fully compliant with the newly implemented FDA UDI product identification initiative.

NOTE 7 – Notes payable

We have recorded interest and financing expense in connection with our notes payable totaling $80,392 and $102,657 for the quarters ended March 31, 2017 and 2016, respectively.

NOTE 8 – Stockholder's equity

2017 Issuances

<u>Preferred</u>

During the quarter ended March 31, 2017, we issued 120,000 shares of preferred series "E" shares for services valued at $14,400.

During the quarter ended March 31, 2017, a holder of our preferred series "E" shares elected to convert 100,000 preferred series "E" shares into 1,400,000 shares of our $0.001 par value common stock.

<u>Common</u>

During the quarter ended March 31, 2016, we issued 1,400,000 shares of $0.001 par value common stock for consulting services valued at $490,000.

During the quarter ended March 31, 2016, we issued 5,216,302 shares of $0.001 par value common stock for conversion of debt totaling 389,263 and financing costs totaling $20,515.

During the quarter ended March 31, 2016, we issued 500,000 shares of $0.001 par value common stock for an option exercise and cash totaling $30,000.

NOTE 9 – Stock options

2017 Stock Option Plan

During the quarter ended March 31, 2017, we adopted the "2017" Executive and Key Man/Woman Stock Option Plan and granted incentive and nonqualified stock options with rights to purchase 450,000 shares of $0.001 par value common stock at the strike price of $.08 per share. As of March 31, 2017, all options allowed under the plan have been granted and are exercisable at the election of the holder.

The following is a summary of activity of outstanding stock options under all Stock Option Plans:

	Number of Shares	Weighted Average Exercise Price
Balance, January 1, 2016	9,621,286	$ 0.10
Options granted	-	-
Options cancelled	-	-
Options exercised	-	-
Balance, December 31, 2016	9,621,286	$ 0.10
Balance, January 1, 2017	9,621,286	$ 0.10
Options granted	450,000	.08
Options cancelled	-	-
Options exercised	-	-
Balance, March 31, 2017	10,071,286	$ 0.10

NOTE 10 – Commitments and Contingencies

Contingencies and Litigation

We transact commerce in several medical products market channels. We also transact commerce by licensing our proprietary medical software that functions by moving confidential medical data through our proprietary medical information technology devices and networks. Our GenStrip 50 and GenUltimate! products required initial regulatory approval by the US FDA as well as on-going US FDA approvals during the product life cycle and are subject to new FDA regulation and post market overview. In 2016, we had to meet new FDA Guidelines for product identification, tracking and standardization. Our new GenChoice! and the upcoming GenPrecis! products will follow the same pathway with the U.S. FDA. The FDA calls its new product identification program, the UDI initiative, and the new packaging required, and met by us, approximates a similar standard implemented in the European Union in 2013. We are now filing for approvals in the EU through a large well known Spanish pharmaceutical company.

Further, our products required medical patient trials and several compete directly with a major platform manufacturer. Healthcare, especially those segments where the company competes, is a very litigious. Competing companies often use litigation as a marketing tool, bringing litigation as a means to protect market share and limit market exposure. We have in the past (and currently) defended cases brought by Plaintiffs asserting these types of claims.

The medical industry is also intertwined. From time to time, we have become involved in claims and litigation that arise out of the normal course of business, such as litigation that emerges from disputes over damaged, missing or contaminated product, litigation that arises over payment disputes or claims of fair value. We have defended cases of this nature. For instance, we have been sued in several jurisdictions over a single business transaction. Often these cases involve substantial over-prosecution where we and our have been held accountable by Plaintiffs for a myriad of things including words written or posted in public forums by anonymous persons.

We may also become involved in disputes that arise over the business or business practices of our suppliers, payers and customers, people or entities that we may not be familiar with. We maintain substantial insurance coverage against suits that may arise over issues of damaged, recalled or counterfeit product and other product liability issues. We have also been a victim of the unapproved acts of prior management. These acts have resulted in claims from individuals and entities since the Board relieved former management of duty in 2006. Nonetheless, these claims have resulted in the use of management time and company resources to investigate, litigate, or settle. In addition, we accrue contingent legal fees and product liability fees. As of March 31, 2017, our contingent legal fees accrual was $240,000 and our general contingencies accrual was $245,069. Contingencies total $485,069 and are reflected herein.

From time to time, we may also be subject to demands from individuals or entities. These demands and disputes may consume management time and company resources. Other than as noted below, if there is such a disclosure, there are no pending matters at the current time that in management's judgment may be considered material or potentially material.

Leases

We currently maintain an executive office at 2660 Townsgate Road, Suite 300, Westlake Village, CA 91361. The space consists of approximately 2,300 square feet. The monthly rental for the space is $2,170 per month on a month-to-month basis. We also maintain space in a public warehouse in Miami, FL, and pay for space indirectly in York, PA for the completion of necessary clinical trials.

Rent expense totaled $6,510 and $6,510 for the quarters ended March 31, 2017 and 2016, respectively.

NOTE 11 – Subsequent events

We have chosen to discuss all subsequent events in our Quarterly Reports for 1Q 2017, specifically in the Managements' Discussion and Analysis and Supplemental Disclosures sections.

In accordance with ASC 855, management evaluated all of our activities through the issue date of the financial statements and concluded that no other subsequent events have occurred that would require recognition or disclosure in the financial statements.