



**Decision Diagnostics Corp.**

**QUARTERLY REPORT FOR OTC PINK  
Management's Discussion & Analysis  
Report for Quarter Ended  
June 30, 2017**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

### Overview

Decision Diagnostics Corp. is a worldwide prescription and non-prescription diagnostics and home testing products distributor and the manufacturer of the Genstrip 50 (discontinued in November 2016) and GenUltimate! glucose test strips, both Class II medical devices for at-home use for the measurement of glucose. A new product, GenSure! is complete and on August 18, 2017 will enter the initial manufacturing phase under company oversight with the company's Korean contract manufacturer. The company's GenChoice! glucose test strip, is now in advanced development, a prelude to the September 2017 clinical trials testing. The GenSure! product has completed its clinical trials, and is currently in registration and we are seeking "CE" marking in the EU. GenSure! will be launched overseas in September 2017. We have identified International distributors for this product.

When our GenChoice! product enters clinical trials during the month of September 2017, these trials will be run in Pennsylvania and California. At the conclusion of the clinical trials, the GenChoice! product will be registered in the EU and with the U.S. FDA through a 510K pre-market clearance. The company has previously contracted with two expert organizations, one who will manage the clinical trials (the IRB) and another who will write the 510K document and prosecute this document at the direction of the company.

Another new product nearing completion is the company's GenPrecis! system product. GenPrecis will consist of the GenPrecis! Precise glucometer, and the GenPrecis! test strip. The company will sell the GenPrecis! products in the USA and in all International markets. The GenPrecis! test strip will also serve as an alternative strip that will also run on an existing legacy meter. The GenPrecis! product is designed to be the most precise meter in the clinical markets, and is expected to set new standards for precision. Initial testing show that the GenPrecis! product will operate at a precision level of (better than) +/- 10 mg/dl in repeated samplings 97% of the time, while current published standards call for precision levels +/- 15 mg/dl in repeated samplings 95% of the time.

The U.S. FDA, in a manner similar to prescription drugs, regulates diagnostic test kits and at-home patient testing products in a similar but somewhat streamlined process, to the regulation of prescription medicine. The regulatory standard used for the Genstrip 50 was the 510k pre-market and post-market processes. The same process will be used for the GenChoice! test strip beginning with the pre-market approval with the FDA. Previous to this change in business model, from 2005 and until 2013, the company contracted with independent pharmacies for use of their prescription drug distribution licenses. At that time the company made market and sold brand name over the counter pharmaceutical items with a concentration in legacy diabetic test strips. The brand name products we distributed, for the most part, did not require a doctor's prescription for anything other than insurance benefit compliance. Our previous business model worked well in the previous regulated environment, although the financial benefits were stressed by major changes made to the Federal Medicare plan that have led to substantially lower rates of reimbursement and ultimately an unprofitable business model.

Our subsidiaries, Pharma Tech Solutions, Inc., PDA Services, Inc. and PharmaTech Sensor Development Corp. operate in several healthcare products channels. In addition, our subsidiary Decision IT Corp. engages in the acquisition and holding of Intellectual Property including Patents and Trademarks and specialty manufacturing equipment acquired for our Korean contract manufacturer of our GenUltimate! and our in development GenSure! and GenChoice! products. Our newest subsidiary Pharmatech Sensor Development Corp. manages our investment in specialty manufacturing machinery and testing laboratories, as well as an inventory credit line to finance inventory purchases of our Genstrip 50 and GenUltimate! products and soon to be our GenSure! and GenChoice! Products. This credit line was expanded in August 2017 for the management of our GenChoice! product later in 2017 and into 2018. The company has discontinued its GenStrip 50 product and ended the selling of the last of the inventory in November 2016.

As summarized above, in March 2017 the company was approached by its Korean partner, The Bio Co., Ltd to design and fund a new product which the company named GenPrecis!. This product, expected to be completed early in 4Q 2017, will represent a major improvement in diabetic glucose monitoring. The GenPrecis! system will be the first of its kind (better than) +/- 10% system. Current ISO (2015) and FDA (2014) guidelines call for glucose monitoring systems to meet a +/- 15% standard, whereby the meter and strip must be within +/- 15% in repeated

samplings 95% of the time. GenUltimate!, GenSure!, and GenChoice! are +/- 15% test strips, but in each case 97+% of the time in repeated samplings. GenPrecis! is designed to meet the written standards of the ISO and FDA at +/- 10%, in repeated samplings 97% of the time – effectively setting a new standard. The company has been funding the development of this system product, and a test strip only derivative version. The system product will be ready for in-house testing in September 2017 and will be registered for International sale in November 2017. However, the natural market for this product will be the U.S, and Canada where precision standards are higher for new products. The company expects to file for FDA pre-market approval right after New Year 2018.

From time to time, when economic conditions warrant and given market conditions, we distribute other brand name prescription and non-prescription diagnostics products, as well as several lines of ostomy, wound care and post-surgery medical products, although these healthcare channels have also undergone two major market changes and disruptions since July 2013 and we have determined that we will maintain our contacts but will refrain from competing. Our main product was the GenStrip 50 and currently the GenUltimate! both of improved performance and design improvements and a rebranding and redevelopment of the original Shasta Technologies Genstrip. Both of these glucose test strips are of our manufacture. We maintain FDA registered contract manufacturers in Pennsylvania and South Korea. The original GenStrip was cleared for market by the FDA on November 30, 2012. By virtue of our written agreements with Shasta in 2011, we were granted an irrevocable license to prosecute their 510k application with the U.S. FDA, and we succeeded. We introduced the original Genstrip in March 2013. We then acquired Genstrip from Shasta Technologies LLC on March 20, 2014 and in late June 2014 we made the first branding changes. We began work on the GenUltimate! product in July 2015 and introduced this improved test strip (vs. our GenStrip) in April 2016. The original Shasta Genstrip and our Genstrip 50 have been discontinued.

Shasta Technologies LLC, the original specifications provider of GenStrip, had an extremely difficult relationship with the US FDA and was the subject of a detailed and damning FDA Warning Letter on April 8, 2014, and when they refused to respond to this Warning Letter, the FDA then broadcast a worldwide Safety Notice on April 29, 2014, effectively ending Shasta's ability to be a product design specifier and manufacturer, due to a total lack of regulatory adherence in the highly regulated medical device industry. It is confusing to consider what Shasta could have possibly been thinking. The company's acquisition of Genstrip (now GenUltimate!) was fortuitous in its timing given the finality and outcome of Shasta Technologies' troubles with the FDA. The GenSure!, GenChoice! and GenPrecis! products are the exclusive IP, technical and design work of the company's PharmaTech Solutions, Inc. subsidiary.

The worldwide market for at-home blood glucose testing is an estimated \$13.0 billion, inclusive of the 2013 and 2016 changes to the Federal Medicare programs which gutted almost one-third of the U.S. market. The current GenUltimate! competes directly with one of the largest worldwide platform manufacturers the venerable Johnson & Johnson (Lifescan Inc.). GenUltimate! (and the earlier GenStrip 50) were developed for use with the OneTouch Ultra legacy system for at-home blood glucose testing, a system currently used daily by over 3 million diabetes afflicted Americans and 5.8 million diabetics world-wide. GenUltimate! competes in the overall at-home testing market by offering an economical solution to former users of the legacy platform provider's product. The company's GenUltimate! product, designed to meet new European Union standards is a much improved version. Our business model is unique to this market channel as our major business focus is directed toward diabetics who have attempted a change of their glucose monitoring platforms (systems) or those currently using the J&J legacy products but are dealing with escalating prices and lower insurance reimbursements. At the time of the introduction of GenStrip in March 2013, J&J controlled just under 30% of this market and 100% of its own Lifescan, Inc. OneTouch Ultra market.

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 30 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 GenUltimate! Phasing out these brand name products lowered our order intake but allowed us to become a manufacturer, in the nomenclature of both the U.S. FDA and the ISO group, operating at a much higher level in the greater market channel.

On November 1, 2011 we completed the acquisition of Diagnostic Newco LLC from its owner Kimberly Binder. Diagnostic Newco LLC was a design company that specialized in product packaging design, medical products advertising design and graphic art. Ms. Binder subsequently joined the staff of the company's Pharma Tech Solutions,

Inc. subsidiary specifically for these purposes, and has worked closely with our contract manufacturers for GenUltimate!, making subtle changes to packaging design and more recently integrating the new FDA UDI product identification data system, among other responsibilities. She is also responsible for the package design for new diagnostic products the company is currently working on, including the upcoming GenSure!, GenChoice! and GenPrecis! products. Ms. Binder is also owner of GenstripDirect LLC and Full Circle Diabetes LLC, her own distribution companies, which she operates separately from her (Decision Diagnostics Corp. and Pharma Tech Solutions, Inc.) company related responsibilities.

We also intend to acquire additional private companies, or partner with small engineering companies that have developed technology requiring either regulatory approval, distribution expertise or both. 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 and treated. The market for diabetes testing products is already in the tens of billions of dollars continues to grow rapidly. We also intend to make additional capital investment later in 2017 in our Korean contract manufacturer and advanced development partner for the manufacture of GenPrecis.

The company's current proprietary product offering, cleared by the FDA for commercial distribution on November 30, 2012, is its newer version GenUltimate! blood glucose diagnostic test strip for at-home testing. Genstrip, the original product, is a product originally conceived by Shasta Technologies LLC, who proved incapable of attaining the necessary regulatory approvals after two attempts, 2009 and 2010/2011. In addition the original Shasta concept could not clear the FDA 510K process and had to undergo major design changes and a new 510K application that was eventually sponsored by this company. The original Shasta product was acquired by our Pharma Tech subsidiary on March 20, 2014, and fits into a diagnostic product niche, fitting nicely into the world-wide self-test (home test) market that has been growing at a 15% annual rate. Since GenUltimate! (and the soon to be GenChoice! product) is a rather unique product 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 made for unusual challenges for the FDA and an educational challenge and opportunity for the company. In fact, the company finally (March 15, 2016) concluded its dealings with the FDA pre and post market review staff, an on-going process that was begun on a sour note by Shasta in October 2009. The company believes that future product offerings that will be regulated by the FDA will be a much smoother process, particularly since receipt of this directed landmark ruling by the U.S. FDA, covering our third party developed diagnostics (developed, in development and to be developed). Since the company plans additional similar products in the future for other diagnostic platforms, in fact a product announced still in the current reporting year, the Genstrip/GenUltimate! experience, however slow and unresponsive it was, has provided lessons and experience which is already being put to use.

Until our receipt of the landmark March 2016 ruling from the FDA, two years (and growing) was a standard development to market timeline for in-vitro diagnostic products similar to Genstrip / GenUltimate! We are confident that new products will enjoy a much speedier FDA review process. As a result of previous delays and failures by Shasta Technologies in completing its FDA approval application [510(k)] and then problems Shasta encountered in prosecuting its two original applications 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 (eventually fatal) on-going problems encountered by Shasta, which on their face proved 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). Subsequently we accomplished a rebranding of the original Genstrip product (GenUltimate!), built manufacturing protocols, improved the design of the product, implemented a robust Quality System throughout 2014 and 2015, and then developed the improved GenUltimate! product. GenUltimate! has become the only product of the original Genstrip line that will be packaged to conform with the FDA UDI standards, and was released as UDI compliant as of September 24, 2016. Manufacturing of Genstrip 50 ended and on-going sales will continue under the GenUltimate! brand, and will include the FDA UDI packaging.

In June 2010 the company was approached by the largest retailer in the world for the distribution and sale of the Genstrip product, then about to enter the 510k regulatory review process, 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

on behalf of Shasta Technologies before the FDA. Discussions with this retailer and other similarly situated retailers had been on a litigation induced hiatus since our litigation with Lifescan, Inc. began in earnest in late March 2013. Lifescan Inc., the diabetes testing division of Johnson & Johnson sued the company in three separate suits, all in Federal court, beginning in September 2011. These suits proved costly in that their intended purpose was to keep the Genstrip product off of retail market shelves. Until these suits were settled in May 2016, the company's marketing abilities were severely limited. The company believes there will be additional limitations as long as Johnson & Johnson spends large sums to discredit the company and its products. One such limitation was recently uncovered whereby Johnson & Johnson Lifescan effectively created an illegal embargo of the company's products by punishing their "Franchise" buyers with burdensome renewal contracts that barred these "franchisees" from buying our products or face the loss of rebate commissions. These rebates typically made up a considerable portion of the "franchisees" compensation thereby creating this illegal embargo of the company's alternative products. This practice by Johnson & Johnson Lifescan finally ended in late May 2017. Subsequently the company's efforts in these markets has improved greatly.

Through our settlements with Johnson & Johnson Lifescan we did achieve a hard-fought victory, particularly since Shasta had admitted (in February 2015) to patent infringements of all three J&J patents that were being adjudicated, in return for a cash settlement. During the remainder of 2016, we settled these lawsuits in a novel manner, where Johnson & Johnson paid the company a settlement amount, for lawsuits where the company was a defendant, a rarity in matters where the Plaintiff initiated the strike suit. J&J, as a part of the settlement, also granted the company licenses to three of J&J patents (one patent that J&J subsequently lost through final action by the US Supreme Court), the larger value gained from this 5-year legal battle. Johnson & Johnson Lifescan took the liberty of asking the court to make the settlement amount confidential, something a Plaintiff, on the losing end of a lawsuit, would want to do.

In March 2016, prior to its settlement, the company's Pharma Tech Solutions, Inc. and Decision IT Corp. subsidiaries brought suit against Lifescan, Inc. in Nevada Federal court for patent infringement, the company alleging that Lifescan, Inc.'s OneTouch Ultra product was and had been infringing both of the company's patents. In March 2017, after a protracted battle with J&J where they tried to invalidate the company's lawsuit, the court in a major ruling agreed that the company will be allowed to move forward (a major victory so early in the suit) and will also be allowed to allege the Doctrine of Equivalents, a legal doctrine that would preclude J&J from twisting words through its pleadings and expert reports to escape justice. In April 2016 the company amended its original suit to include allegations under the Doctrine of Equivalents.

***"The doctrine of equivalents is a legal rule in many (but not all) of the world's patent systems that allows a court to hold a party liable for patent infringement even though the infringing device or process does not fall within the literal scope of a patent claim, but nevertheless is equivalent to the claimed invention(s)."***

The company's case for Patent Infringement is in a short termed but critical discovery phase, where briefs have been written, expert testimony taken, and the positions of the companies set. We feel that we retain the upper hand in this lawsuit. We make our penultimate filing on August 28, 2017. This filing will lead to an eventful Fall schedule and we believe will set the court clock for the prospects of a well earned settlement in early 2018.

In January 2016 the US Supreme Court ruled that the Doctrine of Laches, a defense used by many Defendants (including J&J Lifescan) in patent infringement suits could no longer be used. This ruling further deprived J&J of its most important defenses against the company's current patent infringement claims.

Currently the diabetes testing market is dominated by four large pharmaceutical manufacturers who provide very similar and equally focused products, selling at essentially equal prices. Our Genstrip's original introduction, even with the fits and starts, employed a business model different than those models employed by the major market players. Recent successes in the on-line marketplace has allowed the company to alter the market dynamics, lowering average price (which has occurred) 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. Although this has been part of the company's plans in the recent past, the difficult litigation as well as the advent of the July 2013 and July 2016 changes to Medicare reimbursement (subsequently followed by private insurers) and the

October 2016 reimbursement engineering, pharmacy business models are now blurred. Thus the company successfully added on-line sales to the major on-line Marketplaces to its business model.

The on-line sales Marketplaces have added greatly to the company's success and that of its products. However, over the last several months the number of sales groups advertising on the on-line Marketplaces grew to the point where the company had to add a "product detective" to oversee sales, in particular on Amazon's Marketplace. Many sellers were not buying product directly from the company, in fact "front run" product and began advertising, and using non-approved product images that nonetheless carried the company's copyrights, and then backordered shipments in order to acquire product that had already been sold to diabetics. This front-running activity has placed great pressure on on-line Marketplace prices. To that end, the company has embarked on "cleaning up" the Amazon site, a large task, and sales for 3Q 2017 may or may not ultimately be impacted.

The company has also implemented a very successful "direct to diabetic" business model and has (independently or along with our distributors) executed on-line agreements with several of the largest retail chains, diabetic supply co-operatives, group purchasing organizations, as well as on-line mass merchandisers such as Amacon.com, Ebay, Walmart, Sears, Jet.com and approximately 950 other on-line cooperatives. The company considers this rapid adoption to be a huge success gained in a very short period of time.

In addition, sales may be impacted negatively due to recent marketing efforts by Johnson & Johnson's diabetic division Lifescan. Lifescan has made an effort to move their OneTouch Ultra market share to the Verio line of products. This includes extensive promotional efforts for the Verio meters, a supposed (threatened) withdrawal of support for Ultra products, and a decrease in the production, marketing, and availability of Ultra products. This was a successful strategy in Great Britain during 2Q 2017 and might be successful in the U.S. and Canada. However, given the spotty history of mass meter switchover programs, the company believes a significant number of users who "take the bait" and switch to the new Lifescan meter may be displeased with the cost of the new supplies. The company plans to implement educational promotions to educate the customer on the benefits of continued use of legacy Ultra meters.

The company in the past has also offered 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. Since the advent of "Obamacare," promising products like our own struggled to gain market acceptance in a reimbursement challenged market. While we have kept up with the evolving regulatory changes, we do not foresee implementation of our products and networks in the near future.

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. We have doubled down on this strategy and now employ not only the services of the aforementioned expert, but also additional of his partners and colleagues of his including the professional who put together the industry's "big box" pharmacy private label plan for diabetic test strips in 2006.

In March 2016 also retained a product source company called Retail Monster, to represent our products to large drug chains ("big box pharmacies"), large retailers, chain grocers and the like. Unfortunately the arrangement with Retail Monster did not succeed, primarily because a group of company shareholders and persons claiming to be shareholders poisoned our relationship Retail Monster. After these incursions by shareholders and persons claiming to be shareholders, our relationship with Retail Monster remained cordial, but nonetheless the two companies decided to end the engagement on December 31, 2016. Since August 1, 2017 the company has moved to re-engage Retail Monster.

The efforts being expended in the "big-box" arena are greatly aided by the company's recent success with the explosively growing on-line Marketplaces, many sponsored by the large retail pharmacies and retail stores. These

Marketplaces are fast growing sister organizations to these retailers. The company's recent successes in the on-line Marketplaces has given the company a beachhead in this market as the uncertainty brought on by the J&J lawsuits has (finally) waned. In mid-March 2016 the largest US retailer agreed to raise the company's standing to the highest retail "rung" by offering a new supplier contract.

Often times the largest pharmacy products retailers operate in non-colluding lock-step. Thus the company has been contacted by several chain drug and department store retailers to repackage our products for exclusive sale to these retailers. So, for example, the company has a Trademark on the trade name Alltara, a trade name first explored for our GenUltimate! product. The company plans to package our GenUltimate! and (eventually) GenChoice! products under the trade names Alltara Ultimate and Alltara Choice and offer these (trade named) products on an exclusive basis to the nation's largest drug store chain. Recently, the second largest drug chain has asked for similar treatment. The company is in the process of securing a trademark for the trade name Advanc which will be offered to another large retail chain as an exclusive product(s). By doing these repackaging projects, the company believes we will have our products on large retailer store shelves in an accelerated fashion.

During the 2Q 2017 the company has signed agreements with two distribution outlets, one in New York -- Altro Pharmaceuticals and one in Florida -- Virtue Rx, for the sale of our GenUltimate! and GenChoice! products. In addition, the company has come to agreement with a large shareholder who is in the process of setting up media spots for the direct sale of product to diabetics in the New York and Cleveland, OH metro areas. Additional cities will be added throughout the remainder of 2017. The company is excited about this particular opportunity because the sale will be direct to diabetic through TV infomercial and fulfillment centers. The diabetic buyer will not be required to shop for the product like they do currently on the company's hugely successful Amazon.com portals.

In May 2017 the company was approached by an independent third party company whereby this company made an informal offer to acquire all of the capital stock, cash, assets, and intellectual properties of the company, as well as assume all liabilities including the debt of the company and its subsidiaries, and to assume the disposition of the company's lawsuit against Johnson & Johnson and its subsidiaries Lifescan Scotland and Lifescan, Inc. The company responded to this informal offer by requesting that the proposed suitor formalize the offer in a more detailed Term Sheet or Letter of Offer. The suitor then came back with a confidential formal offer to which the company's Board of Directors through the Principal Executive Officer responded in early August 2017, neither accepting nor rejecting the offer and asking for several areas of clarification, and later rejecting one of the proposed suitor's requests, this for a "stand still" agreement. The company, through the Principal Executive Officer has remained in direct contact with the proposed suitor.

Since March 2015 when we first we acquired special intellectual property and specialty manufacturing equipment which will shall serve our business interests now and into the future. We have increasingly turned to Alpha Capital Anstalt ("Alpha"), Navesink Device Initiatives and Licgo Partners, and most recently Sovereign Partners LLC and Manhattan Global Ventures (the Bolivian partner) whereby these organizations either purchased an 18-month 15% OID derivative instruments or Preferred C stock units and/or Preferred D stock units, to facilitate the acquisition of intellectual property or manufacturing equipment, or to finance our growth. In 1Q, 2Q and 4Q 2016 we completed additional financing transactions with both Alpha and Licgo. In 2Q 2017 we accepted the Subscription of Manhattan Global Ventures for a \$3.25 million investment, and in the current quarter we accepted the subscriptions of Sovereign Partners LLC for an investment of up to \$2.5 million with a \$450,000 over allotment. These most recent investments carry with them three year "lock up" terms, precluding share conversions for three years from the time of the offering. Our most recent transactions with Alpha also financed an inventory credit line for the company so that we can meet the requirements of the largest retailers and maintain at least \$400,000 in stock on hand at any time. In August 2017 Alpha added to this credit line with an additional \$350,000 investment. Our relationships with our financiers are amicable and strong. In addition to the above, Alpha also financed our acquisition of new specialty manufacturing equipment to facilitate our contract manufacturer in Korea as they develop our new GenChoice! product, and will finance (shortly) specialty manufacturing equipment for our new GenChoice! product, meters and test strips. These additional investments will raise the manufacturing capacity of our partner, The Bio Coo., Ltd to just over 1 million vials of test strips per month.

In the Fall of 2014 the company announced its Discretion cloud wireless glucose monitoring product concepts, which will be manufactured for the company according to spec by its Korean contract manufacturer. In April 2015 the company entered into discussions with HMD Biomedical, Inc. in Taiwan for the importing of HMD's

FDA cleared “Cloudia,” product as a placeholder until the company’s Discretion Messenger product for children would be ready. We ended our discussions with HMD Biomedical in October 2016, after determining that the “Cloudia” product was not robustly developed enough for North American markets and to further develop this product would require another 510(k) approval from the U.S. FDA which we did not wish to undertake. And given the number of products we are currently in the process of developing, we also plan to phase out our Discretion Companion (young persons’) meter and strip product. Instead we plan to add the wireless features to our GenPrecis! Precise meter, offering a solution to young people (Type 1 diabetics) with small hands and fingers as well as to the Type 2 (adult onset) diabetic base of users.

To that end, the company’s exclusive agent in Korea was contacted by the Korean government, who apparently was willing to finance the Discretion systems initiative through its advanced development, clinical trials and FDA prosecution. Different than, for example, an NIH grant, this grant from the Korean government, if was accepted by the company, would include investment in the company’s contract manufacturer as well. We have chosen to present the GenPrecis! product to the Korean government for this R&D funding, but with our recent capital financings, if the Korean government decides not to fund GenPrecis! systems, we are well enough financed to fund the development ourselves. In addition, the company has completed a further development of its MD@Hand product, allowing diabetic users of the company’s GenPrecis! products to monitor and track their diabetes treatment and testing on their smart cell phones, laptop computers, and computer pads.

The company entered into two international agreements in the latter part of 2016. The first agreement, executed through the company’s exclusive Korean agent, allows for delivery of the GenUltimate! product in quantity to the Korean market. As of this writing, the Korean partners have ordered and paid for over 95,000 pieces (units) of GenUltimate! Another almost 17,000 pieces (units) are on order for late August 2017. The company’s second international agreement is through a South American financier who has businesses in Bolivia and Spain. This financier has also secured approval to market GenUltimate! throughout Central and South America through a powerful trade organization, allowing for sale of GenUltimate! Strips and meters without any additional political or governmental approvals. This group has placed a single two-year (term) order for approximately \$17 million in GenUltimate! product, GenUltimate! meters and the company’s new (2017) Firefly! Lancets. Almost 11,000 pieces (units) of GenUltimate!, 3,000 GenUltimate! meters and cases of lancets have been delivered to Bolivia. In addition, the South America financier has funded the company’s regulatory applications (through a Spanish pharmaceutical company) with the EU, to gain “CE” marking for its GenUltimate! and GenSure! products (and later in 2017 the company’s GenChoice! and GenPrecis! Products) in return for the Spanish distribution rights to these two products. And lastly, the South American financier that he wished to subscribe to a \$3.25 million to \$5.00 million capital investment in the company. As of this writing the company has not concluded this capital investment, at its choice, but has received a signed and dated a Subscription Agreement for this upcoming investment from the financier. On June 30, 2017 the company accepted the Subscription Agreement for the company’s Preferred D units. Funding of the Subscription is expected by August 20, 2017. This Subscription Agreement is also described in the company’s 2Q 2017 Financials. Among the many terms in this investment, the South American financier will not be able to convert and sell any securities that underlie the investment vehicle for 36 months from the time of the investment.

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 new 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@ technology. 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 then \$6.5 billion at home testing market. Shasta was in default of this 2010 Agreement within 90 days of its initiation. Penalties under that agreement and monies owed totaled in excess of \$2 million in “delay” penalties, which they were unable to pay. 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. Shasta defaulted under this agreement as well. On March 20, 2014 we acquired the GenStrip intellectual property, its marks and the cleared 510(k). Shasta defaulted on this agreement as well. In addition Shasta breached or defaulted on two insurance settlement agreements, owing to the aforementioned J&J litigation. And finally, Shasta confessed to patent infringement of J&J’s three patents.

On April 30, 2014 we first implemented our FDA mandated Quality Plan and are now operating as the manufacturer (operator) of the GenUltimate! test strip. We have implemented subsequent Quality Plans with our Korean contract manufacturer for our GenUltimate! product.

In August 2016 the company settled an insurance matter with Gotham Insurance, an IP Defense insurer, and Shasta covering legal fees associated with the 2011 and 2012 lawsuits brought by Lifescan, Inc. This settlement included a stipulation by Shasta to cease contacting and sharing confidential documents with persons who identified themselves as DECN shareholders. Several of these persons who contacted Shasta also contacted the aforementioned Retail Monster management. The stipulation gained in insurance settlement with Shasta does not preclude the company from pursuing Shasta, its principals and these “shareholders” in its omnibus lawsuit brought against Shasta et al. in 2014. The company plans to amend its 2014 complaint to name additional Defendants including those persons who owned stock in the company who may have traded stock in the market based on information and documents provided by Shasta.

We currently employ eight professionals at or locally managed through our executive business office located at 2660 Townsgate Road, Suite 300, Westlake Village, California 91361. In addition, we maintain two full-time and seven part-time positions located throughout the United States. We are hiring additional professionals in the U.S. and Korea. We have also maintained a Quality Assurance office in York, PA, which we closed on June 23, 2017, and our exclusive agent in Seoul, Korea maintains another QA office as a means to fulfill our quality commitments to the FDA for product manufactured under our oversight in Korea. We also maintain a large portion of a public warehouse in Miami, FL where we pay its proprietor to store, maintain inventory and ship product to our customers. This proprietor also manages the company’s customs broker who works with the company for our importing and exporting of product worldwide. Our telephone number is (805) 446-1973 and our website addresses are [www.decisiondiagnostics.com](http://www.decisiondiagnostics.com) and [www.pharmatechsolutionsinc.com](http://www.pharmatechsolutionsinc.com) and [www.genultimate.com](http://www.genultimate.com). Additional web sites will be added for our GenChoice! product (site in development) and our GenPrecis! Product.

As a part of the company’s strategic plans, we have applied (to register) for seven Trademarks with the USPTO. The company’s Genstrip product is a registered Trademark of Shasta Technologies LLC. Our applications were filed with the USPTO in 1Q and 2Q 2015 3Q 2016 and 2Q 2017. The company intends to use these Marks, as granted, to brand new products, rebranding of existing products, and the establishment of a family of Marks associated with our company and its place in our industry. As December 31, 2016 the company has received registration confirmation from the USPTO for the following Marks:

- “Alltara!”
- “GenUltimate!”
- “GenSure!”
- “GenChoice!”
- “GenAccord!”
- “GenCambre!”
- “Firefly!”

In early May 2017 the company filed for a mark on its GenPrecis! Product.

Beginning in the 4<sup>th</sup> Quarter 2015 and through 2nd Quarter 2016 the company suffered severe inventory shortage of the Genstrip 50 product at various times, owing to the timing of the various settlements with Johnson &

Johnson by Shasta and a contract manufacturer, Conductive Technologies, Inc. For some period of time Conductive was unable, due to their settlement with Johnson & Johnson, to ship to the company any quantities of the Genstrip 50 product. This problem began to clear up in late May 2016, and with the advent of adding the GenUltimate! product from Korea, shortages have been alleviated. The company is currently not buying any product from its Pennsylvania contract manufacturer, and is undecided whether we will sign a new contract original scheduled for implementation on January 2, 2018. The company's capacity for GenUltimate! production is now 625,000 packages per month (50 count and 100 count packages) and manufactured in Korea, for the new GenSure! product 250,000 packages per month (25 count and 50 count packages) to be manufactured in Korea, and the new GenChoice! product 500,000 packages per month (50 count and 100 count packages) to be manufactured in Korea. Recently, a mega-retailer has requested the company keep minimum inventories of finished product of 350,000 units on hand. We expect other retailers to make similar requests.

On May 5, 2017 the company was contacted by a worldwide private label manufacturer and distributor for the purposes of worldwide distribution of our products under their brand(s). We are in discussions with this entity currently. This company has headquarters in the U.S. (Midwest) and France.

The company's stock currently trades on the OTCMarkets OTC Pink Current tier of the market. The company's shares are DTC eligible. On May 12, 2015 the company made an application for a tier change to the OTCQX (common) tier. When the company's common stock fell in price beneath the \$.10 threshold, and when our sponsoring broker shuttered his operation, our application went into hiatus. Subsequently, we have been in contact with OTCMarkets and we plan to revive our application, and to that end we have filed for uplist on OTCMarkets as an Alternative Filer. This uplist will move the company's stock listing to the OTCQB level. The company has received a tentative approval for this uplist pending an audit of the company's 2016 balance sheet. In July 2016 the company contacted several auditing firms and has received two engagement letters for our Board's review. Most recently we contacted our former auditor (dating to 2011) and with whom we shared an excellent working relationship. This firm has settled its differences with the U.S. PCAOB owing to a rogue accounting partner who remains barred. We expect to receive their engagement letter and if forthcoming, the Board of Directors would approve their engagement.

In September 2016 we were contacted by a shell company, Appyea, Inc. to complete an M&A transaction that would have led to the company's merger with that company under the terms of 96.5% / 3.5% (about standard for these type of transactions), terms that were offered by Appyea, Inc.. A confidential Preliminary Agreement was executed and then breached by Appyea, Inc. when Appyea decided to raise capital and dilute their stock by approximately 50% during a well defined "stand still" period, using the rumors of a merger to propel their stock. The company has received several offers from Appyea, Inc. as a break-up consideration, which we have found unacceptable. The company has forwarded our final demand of settlement.

#### **Business activities throughout the next twelve months:**

The company's business on a day-to-day basis includes the distribution of our GenUltimate! products, (50 count and 100 count versions). Also within 90 days of this writing, the company will introduce its GenSure! product which has recently concluded its clinical analyses. GenSure will be sold in certain International markets. In the next 120 days the company will have concluded the clinical analyses and filed for 510K clearance for its GenChoice! product (50 count and 100 count versions). The GenChoice! product will be sold worldwide.

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. We eagerly await the new version of the national health plan, which might finally create markets for our products.

Our 12-month business objectives include:

1. The practice of specializing in the distribution of GenUltimate! and GenSure! products, and then completion of the GenChoice! product. We also intend to add several brand-name medical diagnostic and medical disposable products (lancets through our Firefly! Product, as well as several lines of insulin syringes and pen needles, all associated with the on-going care of diabetes-inflicted patients, and the world-wide distribution of our proprietary diagnostic product GenUltimate! product.
2. Combining our wholesale and retail diagnostics distribution with the major successes we have had in the on-line retail markets, and adding legacy retail organizations (already some legacy retailers of note).
3. Continue to implement the plans provided by our agent MWK LLC, and secure big-box pharmacy chains, chain grocers and nationwide retailers.

### **Recent Business Milestones**

In 2016-2017 the company has accomplished the following milestones.

1. We completed the design and manufacture of GenUltimate! glucose test strips for the U.S. and international markets.
2. We began advanced development of two new test strip products, our GenSure! and GenChoice! test strips. GenSure! is slated for a July 2017 product launch, GenChoice!, which requires FDA clearance, is slated to be ready for market in late 2017 if the company decides not to launch the GenChoice! product outside the U.S. initially.
3. We settled our lawsuit with the divisions of Johnson & Johnson. Although settlements of litigation typically have no winners, in this case the company benefitted through the receipt of a cash settlement payment as well as licenses to pursue Johnson & Johnson's test strip patents.
4. We brought suit against Johnson & Johnson and several divisions for manufacturing products that infringe on our patents. Recently we won a major early battle in this suit where the trial judge granted us the opportunity to argue the Doctrine of Equivalents, an important concession in this case given J&J's penchant for the twisting of words and drawing lines through random dots. This suit began its prosecution phase on March 15, 2017 with the trial judge's early ruling. This suit is now well in progress.
5. Our Discretion Messenger wireless glucose monitoring device and test strips has received an offer of a grant from the Korean government for its advanced development, clinical trials and FDA prosecution. Discretion Messenger is a product designed for diabetic children and their parents and caregivers. The company's grant was delayed by political issues that arose with the South Korean government.
6. The company initiated a marketing program to the on-line Marketplaces sponsored by pharmacy chain, department store and grocery store retailers, as well as mass merchandisers, and including the largest retailers. This program has so been the most successful endeavor since our inception.

### **Financing Requirements**

At June 30, 2017, we had cash of \$749,894 and negative working capital of \$275,825. We anticipate that we will require \$67 million in trade debt financing to finance our expected sales of GenUltimate!, GenSure! GenChoice! and GenPrecis!. as the company enters a new products driven growth phase. Debt financing is institutional debt where the debtor shares risk for the company's inventory purchases, receivables and products in transit. We are seeking traditional commercial credit and what we are seeking should not be confused or tortured into claims that the company is seeking non-traditional microcap company gimmick financing such as Equity Lines of Credit or similarly toxic transactions, which are neither purchases of Equity nor a Credit Facility.

In March 2012 we renewed an agreement with Alpha Credit Resources ("ACR") for a third time in order to obtain this debt same financing. After the expiration of that agreement, in November 2013 we executed a new line of credit with Alpha Credit Resources, replacing our previous line. This credit line was for \$12.5 million, but with the

velocity of our product sales, could yield over \$250 million in annually available credit. Other than Alpha's offer of this credit line, which turned out to be a great work of fiction, the company had not done any work with Alpha or borrowed any funds dating back to September 2011. Subsequently we learned that ACR's parent, Platinum Credit became the subject of several Federal criminal investigations. ACR has not. ACR is not a part of the Platinum Credit liquidations filed in September 2016. Nonetheless, despite not having endured any prior business relationship with Platinum Credit, the company immediately froze all of its securities held by ACR. In addition ACR had not been granted any requests for any conversion or sale transactions since December 2014, nor have they requested any. As a part of this liquidation, the company is now seeking return of most of the securities granted to ACR from 2007 through January 2015.

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. In these times, we turn to existing shareholders with the wherewithal and the knowledge to complete the financings. Alpha Capital Anstalt and Navesink/Licgo/Sovereign Partners have been used throughout our business plan. 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.

### Results of Operations for the three months ended June 30, 2017 and 2016, compared.

The following tables summarize selected items from the statement of operations for the three months ended June 30, 2017 compared to 2016.

	Three Months Ended			
	June 30,		3 Months	% Δ
	2017	2016		
Revenue	\$ 422,740	\$ 252,547	170,193	67.39%
Cost of sales	292,799	114,497	178,302	155.73%
<b>Gross profit</b>	<b>129,941</b>	<b>138,050</b>	<b>(8,109)</b>	<b>-5.87%</b>

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 include the sale of retail brand-name products. These conditions may continue throughout 2017, but will enhance sales of our GenUltimate! as we continue to develop our marketing and distribution channels.

### OPERATING EXPENSES:

	Three Months Ended			
	June 30,			
	2017	2016	3 Months	% Δ
<b>Expenses:</b>				
General & administrative expenses	94,777	135,949	(41,172)	-30.28%
Consulting	16,089	203,515	(187,426)	-92.09%
Compensation expense	97,431	11,600	85,831	739.92%
Professional fees	377,719	107,390	270,329	251.73%
Total expenses	586,017	458,454	127,563	27.82%

**General and administration** expenses include office expenses (including rent, cleaning and maintenance, utilities, and telephone), insurance, and bank charges. During the three months ended June 30, 2017, general and administration expenses decreased by \$41,172 to \$94,777 (2016 - \$135,949). As we experience growth in revenues, general and administration expenses are expected to decrease on a percentage of revenue basis.

**Consulting expenses** for the three months ended June 30, 2017 decreased \$187,426 to \$16,089 (2016 - \$203,515). Historically, management shifts its labor requirements between, outside consultants, casual labor and in-house management dependent upon availability and cost effectiveness of resources. During 2016, 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 2017 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.

**Compensation expense** for the three months ended June 30, 2017 increased \$85,831 to \$97,431 (2016 - \$11,600) due primarily to the issuance of employee stock options valued at \$36,000 and a general increase in compensation to contract consultants performing daily operating services.

**Professional fees** include accounting services, legal fees and regulatory reporting compliance. The significant increase in professional fees of \$270,329 to \$377,719 (2016 - \$107,390) is due primarily to an increase in professional advisement and legal fees 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 during the quarter ended June 30, 2016. We anticipate our legal fees to continue into 2017.

#### OTHER INCOME (EXPENSE):

	Three Months Ended			
	June 30,			
	2017	2016	3 Months	% Δ
<b>Other income (expense):</b>				
Financing costs	(7,000)	(570,506)	563,506	-98.77%
Interest expense, net	(59,877)	(111,667)	51,790	-46.38%
Loss on write-down of obsolete inventory	-	(211,459)	211,459	-100.00%
Loss on terminated contract	(83,472)	-	(83,472)	100.00%
Gain on patent licenses	-	1,000,000	(1,000,000)	-100.00%
Total other income (expense)	(150,349)	106,368	(256,717)	-241.35%

Our other income and expense decreased an overall \$256,717 from \$106,368 in 2016 to (\$150,349) in 2017. Other expense includes costs related to our financing activities associated with our debt and equity offerings of \$7,000 (2016 - \$570,506) and interest expense of \$59,877 (2016 - \$111,667). The decrease is due primarily to a \$1,000,000 gain on patent licenses that we secured in the J&J lawsuit in our favor in 2016. We also incurred an 83,472 loss on termination of contract with our Pennsylvania based contract manufacturer, the last product received under this contract was impaired due to its expiration less than a year from the date of impairment.

We recorded a net loss for the three months ended June 30, 2017 of \$606,425 compared to a net loss in 2016 of \$214,036. Our total operating and non-operating (defined as financing costs and interest expense) expenses in 2017 totaled \$522,953 compared to \$1,002,577 in 2016, representing an overall decrease in total expenses of \$479,624. This change was primarily the result of consulting fees, financing costs, and interest expense.

### Results of Operations for the six months ended June 30, 2017 and 2016 compared.

The following tables summarize selected items from the statement of operations for the six months ended June 30, 2017 compared to 2016.

	Six Months Ended			
	June 30,			
	2017	2016	6 Months	% Δ
Revenue	\$ 777,802	\$ 416,396	361,406	86.79%
Cost of sales	547,332	226,357	320,975	141.80%
<b>Gross profit</b>	<b>230,470</b>	<b>190,039</b>	<b>40,431</b>	<b>21.27%</b>

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 include the sale of retail brand-name products. These conditions may continue throughout 2017, but will enhance sales of our GenUltimate! as we continue to develop our marketing and distribution channels.

### OPERATING EXPENSES:

	Six Months Ended			
	June 30,			
	2017	2016	6 Months	% Δ
<b>Expenses:</b>				
General & administrative expenses	215,491	255,418	(39,927)	-15.63%
Consulting	63,286	225,897	(162,611)	-71.98%
Compensation expense	201,052	18,200	182,852	1004.68%
Professional fees	562,153	1,366,545	(804,392)	-58.86%
Total expenses	1,041,983	1,866,060	(824,077)	-44.16%

**General and administration** expenses include office expenses (including rent, cleaning and maintenance, utilities, and telephone), insurance, and bank charges. During the six months ended June 30, 2017, general and administration expenses decreased by \$39,927 to \$215,491 (2016 - \$255,418). As we experience growth in revenues, general and administration expenses are expected to decrease on a percentage of revenue basis.

**Consulting expenses** for the six months ended June 30, 2017 decreased \$162,611 to \$63,286 (2016 - \$225,897). Historically, management shifts its labor requirements between, outside consultants, casual labor and in-house management dependent upon availability and cost effectiveness of resources. During 2017 and 2016, 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 2017 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.

**Compensation expense** for the six months ended June 30, 2017 increased \$182,852 to \$201,052 (2016 - \$18,200) due primarily to the issuance of employee stock options valued at \$36,000 and a general increase in compensation to contract consultants performing daily operating services.

**Professional fees** include accounting services, legal fees and regulatory reporting compliance. The significant decrease in professional fees of \$804,392 to \$562,153 (2016 - \$1,366,545) is due primarily to a decrease in professional advisement and legal fees 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 during the quarter ended June 30, 2016. We anticipate our legal fees to continue into 2017.

#### **OTHER INCOME (EXPENSE):**

	Six Months Ended		6 Months	% Δ
	June 30,			
	2017	2016		
<b>Other income (expense):</b>				
Financing costs	(27,515)	(673,163)	645,648	100.00%
Interest expense, net	(119,754)	(111,667)	(8,087)	7.24%
Loss on write-down of obsolete inventory	-	(211,459)	211,459	100.00%
Loss on terminated contract	(83,472)	-	(83,472)	100.00%
Gain on patent licenses	-	1,000,000	(1,000,000)	100.00%
Total other income (expense)	(230,741)	3,711	(234,452)	-6317.77%

Our other income and expense decreased an overall \$234,452 from \$3,711 in 2016 to (\$230,741) in 2017. Other expense includes costs related to our financing activities associated with our debt and equity offerings of \$20,515 (2016 - \$102,657) and interest expense of \$59,877 (2016 - \$0). The decrease is due primarily to a \$1,000,000 gain on patent licenses that we secured in the J&J lawsuit in our favor in 2016. We also incurred an 83,472 loss on termination of contract with our Pennsylvania based contract manufacturer, the last product received under this contract was impaired due to its expiration less than a year from the date of impairment.

We recorded a net loss for the six months ended June 30, 2017 of \$1,042,254 compared to a net loss in 2016 of \$1,674,710. Our total operating and non-operating (defined as financing costs and interest expense) expenses in 2017 totaled \$1,189,252 compared to \$2,650,890 in 2016, representing an overall decrease in total expenses of \$1,461,638. This change was primarily the result of consulting fees, financing costs, and interest expense.

#### **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 2017, 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 (now GenUltimate!), to the manufacturer of this product (now 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 GenUltimate! 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 June 30, 2017, we had cash and cash equivalents of \$749,894, inventory of \$302,940, prepaid expenses of \$1,360,831, and accounts receivable of \$633,755. Net cash used by operating activities for the six months ended June 30, 2017 was approximately \$493,831. Current liabilities of \$3,323,245 consisted of: \$807,861 of accounts payable and accrued liabilities, accrued interest of \$279,513, and notes payable of \$1,995,871. As of June 30, 2017, we have a negative working capital of \$275,825.

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 \$47,870,223 and a net loss of \$1,042,254 for the six months ended June 30, 2017. 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. The company has been successful “staging” any future dilution. However that being said, 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 six months ended June 30, 2017, operating activities used cash of \$493,831 compared to using cash of \$1,765,842 in 2016. Our operating loss for 2017 was \$1,042,254 and included amortization of prepaid legal fees of \$250,000 (2016 - \$0), shares and options issued for services of \$21,400 (2016 - \$490,000), and options issued for employee compensation of \$36,000 (2016 - \$0), shares issued for financing fees of \$27,515 (2016 - \$673,163), and loss on terminated contract of \$83,472 (2016 - \$0). Our change in accounts receivables increased \$7,014 to a use of \$96,624 (2016 - \$89,610 use). Our change in inventory increased \$810,285 to a source of \$104,523 (2016 - \$705,762 use). Our change in accounts payable and accrued liabilities increased by \$224,295 to a source of \$84,691 (2016 - \$139,604 use). Contingent legal fees decreased \$240,000 to \$0 (2016 - \$240,000). Accrued interest decreased by \$196,299 to \$36,282 (2016- \$232,581) related to our convertible debt offering. Our contingent liabilities remained constant in 2017 as compared to 2016 due to the recognition of liability due to our involvement in legal matters.

### **Cash from Investing Activities**

During the six months ended June 30, 2017, investing activities used cash of \$108,135 (2016 - \$590,250). The decrease is due primarily to the acquisition of specialty equipment and additional intellectual property (patents) in 2016.

### **Cash from Financing Activities**

During the six months ended June 30, 2017, financing activities produced net cash of \$0 (2016 - \$3,252,740). This change is primarily a result of debt and equity offerings in 2016.

### *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 September 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 Year ended December 31, 2011. The agreement matured on December 31, 2011 without renewal. In March of 2012, we executed a renewal agreement with Alpha Credit. The renewal Year matured on December 31, 2012. We borrowed no money under this renewal. 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. Alpha Credit Resources breached this renewal agreement. The agreement was allowed to come to term. In April 2016 the company brought its disputes with Alpha Credit to the attention of new management and the funds liquidator and while working on a resolution, the parent of Alpha Credit and some its sister operations became embroiled in two Federal criminal investigations. The company is standing still until these investigations are brought to a conclusion.

### ***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 2017 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 June 30, 2017, our cash balance was \$749,894. 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 year 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 negative working capital, 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 initially in 2007 that the company could fill orders for patients and customers on a continuous basis.

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 in the United States or Canada; as such, items are not required by us at this time. We have, however and from time to time, purchased specialty equipment for our Korean initiative. We have disclosed these investments previously in this document.

### ***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.

## 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 original Genstrip product required initial regulatory approval by the USFDA as well as on-going USFDA approvals during the product life cycle. Further, Genstrip required medical patient trials and competes directly with a major platform manufacturer. We insure against any claims made against the company for our Genstrip product.

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. The medical industry is also intertwined. From time to time, we may 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 may also become involved in disputes that arise over the business or business practices of our suppliers, payers and customers. It is not uncommon in our industry to find that a litigant has filed claims in multiple jurisdictions involving the same transaction or a single transaction. The company maintains substantial insurance coverage against suits that may arise over issues of damaged, recalled or counterfeit product and other product liability issues. The company has 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, the company accrues contingent legal fees and product liability fees. As of December 31, 2016, our accrual was \$240,000 and \$245,069.

From time to time, the company 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 potentially material to us.

We were in litigation with Lifescan Inc. a subsidiary of the Fortune 25 Johnson & Johnson, beginning in September 2011. Lifescan had maintained throughout that our Genstrip product infringed on three of their patents. One of these patents has become the subject of peripheral litigation activities, and two Appeals (one for each side) to the U.S. Appeals Court for the Federal Circuit (the patents appeals court). In January 2016 the Court of Appeals for the Federal Circuit ruled in its Mandate that this one foundational patent and the claims made by the assignee Lifescan, Inc. was struck (killed) due to obviousness (a clever wording meant to obscure a connection between the Lifescan, Inc. invention and earlier generation technologies dating back to the late 1970s). Throughout this Appeal process, and a litigation process waged through the USPTO, the company prevailed. Recently, as a result of certain claims and allegations made by Lifescan after the close of the USPTO final determination (in favor of the company), the office of the Solicitor General intervened against Lifescan Inc. in the Federal Circuit court and was of great assistance in getting the Lifescan, Inc. patent revoked. Nonetheless the seeming baseless allegations and claims made by Lifescan against the company have taken their toll, limited our ability to sell our products in large quantities to large entities ("big box stores") and greatly extended the court processes.

In the Spring of 2013, fearing the impact of the Genstrip product in an open market, Lifescan took it upon themselves to violate a court protective order and prepared and sent out thirty page certified (veiled threat) letters to customers of the company and the customers of the company's customers, making it clear to these entities that should they do business with the company, or buy Genstrip product from others doing business with the company, they could or would be added as defendants to the patent infringement suit. Most independent pharmacies in the U.S. sell less than a case (24 boxes) of a single brand of glucose test strips monthly. It is easy to ascertain that an independent pharmacy would choose not to "poke the bear" and risk a several hundred thousand dollar defense, rather than halting sales of Genstrip. Some large retailers were visited or called by Lifescan management and provided with face to face veiled threats. Lifescan even calculated that by breaching the protective order, the sanctions they would be assessed would amount to far less than the business loss they would otherwise suffer. Slowly however, the litigation environment enjoyed by Lifescan changed in our favor.

In December 2014 counsel for Lifescan wrote a letter to the trial judge who was hearing all three patent matters. This letter outlined a series of issues involving Lifescan's lead damages "expert" during litigation proceedings. Lifescan's expert claimed educational and qualification credentials that were not true at the time of the "expert" testimony, and are not true even today. This expert also assisted Lifescan's counsel in at least one other case, and other companies' counsels in unrelated cases. Testimony from this expert, in each instance, allowed the Plaintiffs in these cases to secure court rulings to the detriment of the Defendants, one of these Defendants being the company. In the company's case this expert was used twice and assisted Lifescan to receive preferential treatment from the court for setting of a litigation bond to cover potential damages, wherein the "expert" through testimony limited the scope and calculation of damages in the setting of the damages protection afforded by the litigation bond and the damages resulting from Lifescan's violation of the court protective order. Lifescan's letter admonition came over a year after their successful use of this "expert."

In March 2016 the company filed suit in the Federal District Court of Nevada against Lifescan, Inc., Lifescan Scotland, Ltd. and Johnson & Johnson, citing infringement of two patents owned by the company. After an exchange of demand letters and posturing by the Defendants, including Defendant's Motion to Dismiss, the company prevailed in an important early determination by the trial judge. At a hearing in March 2017 the Federal judge denied Lifescan's Motion to Dismiss, granted the company's request to allege the Doctrine of Equivalents and set dates beginning in early April 2017 and ending in early November 2017 that could set the stage for a ruling. Sometime after September 18, 2017 the company expects to amend its suit a second time and name other "infringers" as well as adding additional counts to the suit. All of these supplemental "infringers" have been contacted and put on notice. Federal rules for patent infringement suits have changed, and these suits are now adjudicated over an 18-24 month period. The trial judge's ruling in mid-March seems to foot with this schedule. In addition, if the schedule set by the judge does not end the litigation, there are five scheduled Mediations in front of a Federal Judge Magistrate pushing the process along. The company amended its suit in April 2017, alleging patent infringement on behalf of the J&J entities under the Doctrine of Equivalents. The J&J entities answered the amended complaint later in April, and the (next step) expert testimony has begun. This part of the litigation process will end on September 18, 2017, after Lifescan is allowed to file its final rebuttal. From then until early November the trial judge will make his ruling. The company is extremely optimistic of the expected outcome.

On May 20, 2016 the company settled all of Lifescan's patent infringement claims as well as the company's Anti-trust and false advertising counter-claims against Lifescan, Inc. and Johnson & Johnson. Neither side in these litigations was a clear winner, but Lifescan did pay the company's settlement demand, rare for a Plaintiff to pay a Defendant. Lifescan also granted us a license to three of their patents which also offered future value to the company. The company's products were artificially denied a market for almost 3 years, but on the other hand, the company did receive settlement monies and other compensation from Lifescan. The company also planted a seed during the settlement with the court whereby Lifescan was notified that they would be held liable for future anti-trust violations through their continued illegal embargo of the company's products with their "franchise" customers, primarily big-box pharmacy chains. One year later Lifescan ended this illegal embargo paving the way (finally) for the company's free enterprise. Our disputes with J&J/Lifescan were complex cases, and given the complexity, J&J/Lifescan was able to employ foot-dragging strategies, the engagement of experts who lied about their credentials, the writing of 1500 letters threatening most of the higher volume independent pharmacies with separate litigation if any of these pharmacies bought the company's products, and finally an illegal embargo implemented through contract renewals with their "franchise" customers. Although the settlement with J&J/Lifescan was confidential, the company did prevail, a set of noteworthy achievements. The settlement with J&J/Lifescan included licenses to the Lifescan Inc. patents which were of great value to the company in the overall settlement, as will be seen throughout the remainder of 2017 and into 2018.

### **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.