Decision Diagnostics Corp.

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

Quarterly Report for Period Ended March 31, 2018

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, 2018, and 2017. 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, 2018	December 31, 2017
Assets		
Current assets:		
Cash	$ 816,183	$ 1,088,761
Accounts receivable, net	548,095	437,904
Inventory	216,605	316,659
Prepaid expenses	608,738	859,413
Total current assets	2,189,621	2,702,737
Fixed assets:		
Specialty manufacturing equipment	802,315	802,315
	802,315	802,315
Less accumulated depreciation	-	-
Fixed assets, net	802,315	802,315
Other assets:		
Intellectual property	551,875	551,875
Patent licenses, net value	1,075,825	1,075,825
Total other assets	1,627,700	1,627,700
Total assets	$ 4,619,637	$ 5,132,752
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 812,065	$ 805,555
Accrued interest	54,322	173,433
Contingent legal fees	240,000	240,000
Notes payable and short term debt (Note 5)	1,580,295	2,029,087
Total current liabilities	2,686,682	3,248,074
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, 2018 and December 31, 2017	-	-
Preferred series "B" stock, $0.001 par value, 2,500 shares authorized, 1,000 issued and outstanding as of March 31, 2018 and December 31, 2017	2	2
Preferred series "C" stock, $0.001 par value, 10,000 shares authorized, 6,683 and 6,235 shares issued and outstanding as of March 31, 2018 and December 31, 2017	6	6
Preferred series "D" stock, $0.001 par value, 500 shares authorized, 40 shares and 40 shares issued and outstanding as of as of March 31, 2018 and December 31, 2017	-	-
Preferred series "E" stock, $0.001 par value, 1,250,000 shares authorized, 743,240 and 813,240 issued and outstanding as of March 31, 2018 and December 31, 2017	743	813
Common stock, $0.001 par value, 494,995,000 shares authorized, 117,133,349 and 110,231,610 shares issued and outstanding as of March 31, 2018 and December 31, 2017	118,446	110,032
Common stock unissued, 1,410,000 shares as of March 31, 2018 and December 31, 2017	1,411	1,411
Subscription receivable	(82,250)	(82,250)
Unit offering finders' fees	(321,344)	(321,344)
Additional paid-in capital	46,901,434	46,288,346
Retained (deficit)	(44,930,563)	(44,357,408)
Total stockholders' equity	1,687,885	1,639,608
Total liabilities and stockholders' equity	$ 4,619,637	$ 5,132,752

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, 2018	Three Months Ended March 31, 2017
Revenue	$ 559,004	$ 355,062
Cost of sales	346,174	254,533
Gross profit	212,830	100,529
Expenses:		
General & administrative expenses	146,618	120,714
Consulting	31,685	47,197
Compensation expense	108,122	103,621
Professional fees	446,151	184,434
Total expenses	732,575	455,966
Net operating (loss)	(519,746)	(355,437)
Other income (expense):		
Financing costs	(6,000)	(20,515)
Interest expense, net	(47,409)	(59,877)
Total other income (expense)	(53,409)	(80,392)
Taxes:		
State	-	-
Net loss	$ (573,155)	$ (435,829)
Add: Dividends declared on preferred stock	-	-
Income available to common shareholders'	$ (573,155)	$ (435,829)
Weighted average number of common shares outstanding - basic and fully diluted	113,832,108	86,989,883
Net loss per share - basic and fully diluted	$ (0.01)	$ (0.01)

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

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Statements of Shareholders' Equity

(Unaudited)

		Preferred "B"		Preferred "C"		Preferred "D"		Preferred "E"		Common Stock			Authorized	Subscription	Finders'	Retained	
Date	Shareholder	# Shares	Amt	# Shares	Amt	# Shares	Amt	# Shs	Amt	# Shs	Amt	APIC	Unissued	Receivable	Fees	(Deficit)	Total
BALANCE, DECEMBER 31, 2017		*1,000*	*2*	*6,473*	*6*	*40*	-	*813,240*	*813*	*110,231,610*	*110,032*	*46,288,346*	*1,411*	*(82,250)*	*(321,344)*	*(44,357,408)*	*1,639,608*
1/8/2018	New Issuance-Alpha Capital Anstalt									1,504,281	1,504	151,932					153,437
1/18/2018	New Issuance-Robert Herskowitz							100,000	100	-	-	5,900					6,000
2/9/2018	New Issuance-Alpha Capital Anstalt									1,496,661	1,497	151,163					152,659
2/23/2018	New Issuance-Robert Herskowitz							(100,000)	(100)	1,400,000	1,400	(1,300)					-
2/23/2018	New Issuance-Chase Financing Inc Profit Sh.							(70,000)	(70)	980,000	980	(910)					-
3/5/2018	New Issuance-Alpha Capital Anstalt									1,510,797	1,511	152,590					154,101
3/31/2018	New Issuance-Alpha Capital Anstalt									1,521,904	1,522	153,712					155,234
	Net loss															*(573,155)*	*(573,155)*
BALANCE, MARCH 31, 2018		*1,000*	*2*	*6,473*	*6*	*40*	-	*743,240*	*743*	*118,645,253*	*118,446*	*46,901,434*	*1,411*	*(82,250)*	*(321,344)*	*(44,930,563)*	*1,687,884*

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

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Cash flows from operating activities		
Net loss	$ (573,155)	$ (435,829)
Adjustments to reconcile net loss to		
net cash (used) by operating activities:		
Amortization of prepaid legal fees	250,000	-
Shares and options issued for services	-	14,400
Options issued for employee compensation	-	36,000
Shares issued for financing fees	6,000	20,515
Changes in operating assets and liabilities		
Accounts receivable	(110,191)	78,596
Inventory	100,054	(89,492)
Prepaid and other assets	675	689
Accounts payable and accrued liabilities	6,511	(269)
Contingent legal fees	-	-
Accrued interest	47,409	59,877
Net cash (used) by operating activities	(272,698)	(315,513)
Cash flows from investing activities		
Fixed assets	-	(64,890)
Intellectual property	-	(40,745)
Net cash (used) by investing activities	-	(105,635)
Cash flows from financing activities		
Proceeds from notes payable	120	-
Subscriptions payable	-	-
Shares issued and options exercised for cash	-	-
Net cash provided by financing activities	120	-
Net decrease in cash	(272,578)	(421,148)
Cash - beginning	1,088,761	1,351,860
Cash - ending	$ 816,183	$ 930,712
Supplemental disclosures:		
Interest paid	$ -	$ -
Income taxes paid	$ -	$ -
Non-cash transactions:		
Shares and options issued for services	$ -	$ 14,400
Options issued for compensation	$ -	$ 36,000
Shares issued for financing activities	$ 6,000	$ 20,515
Shares issued for debt and derivative liabilities	$ 615,431	$ 389,263

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

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, 2017 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, 2018 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 distribution platforms and channels 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, 2018:

	FYE 2018 Fair Value Measurements			
	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Intellectual property	$ -	$ -	$ 1,627,700	$ 1,627,700
Liabilities	-	-	-	-
Notes payable	-	(1,580,295)	-	(1,580,295)
Total	$ -	$ (1,580,295)	$ 1,627,700	$ 47,405

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 for our GenUltimate! products that is now located in the Korean facility of the Company's R&D and contract manufacturing partner. In the summer of 2016 we augmented this equipment by adding additional equipment capable of manufacturing our GenChoice!, GenAccord! and GenCambre! products that make use of different molds and chemical processes.

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. We continue to incur great expense due to development of our GenChoice! and GenPrecis! products during first quarter ending March 31, 2018.

NOTE 5 – Patents

During the quarters ended March 31, 2018 and 2017, we capitalized attorney fees related to the continued development and perfection of our patents. We did not amortize any intellectual property or patents during the quarters ended March 31, 2018 and 2017. We are, however, prosecuting our patents in a lawsuit in the Federal Court district of Nevada, against Johnson and Johnson and two of their divisions.

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 litigation concerning the IP insurance defense policy has subsequently been settled with the insurer and their agents. We intend to file suit in Pennsylvania where we will litigate damages incurred as a result of a 2015 collusion between Shasta and our former contract manufacturer Conductive technologies, Inc., who conspired with Johnson and Johnson during the settlement of the first patent litigations.

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 will be determined by the court. We did register this FDA cleared product under our FDA Establishment registration (with the US FDA) in 2014, 2015, 2016, 2017 and in 2018. 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 $47,409 and $59,877 and $6,000 and $20,515 for the quarters ended March 31, 2018 and 2017, respectively.

NOTE 8 – Stockholder's equity

2018 Issuances

<u>Preferred</u>

During the quarter ended March 31, 2018, we issued 100,000 shares of preferred series "E" shares for services valued at $6,000.

During the quarter ended March 31, 2018, holders of our preferred series "E" shares elected to convert 170,000 preferred series "E" shares into 2,380,000 shares of our $0.001 par value common stock.

<u>Common</u>

During the quarter ended March 31, 2018, we issued 6,033,643 shares of $0.001 par value common stock for conversion of debt and accrued interest totaling $615,432.

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, 2018, 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, 2017	9,621,286	$ 0.10
Options granted	450,000	.08
Options cancelled	-	-
Options exercised	-	-
Balance, December 31, 2017	10,071,286	$ 0.10
Balance, January 1, 2018	10,071,286	$ 0.10
Options granted	-	-
Options cancelled	-	-
Options exercised	-	-
Balance, March 31, 2018	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 GenPrecis! and the later upcoming GenAccord! and GenCambre! 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, and then subsequently adopted in other countries, Korea for example. We are now filing for approvals in the EU after having received certain approvals in Central and South America.

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 (market depriving) 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 also had to defend trade dress claims filed solely because of the cost to defend these claims, real or not. 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, 2018, 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 we are granted space indirectly in Seoul, South Korea for the completion of necessary clinical trials as well as product development.

Rent expense totaled $6,510 and $6,510 for the quarters ended March 31, 2018 and 2017, respectively.

NOTE 11 – Subsequent events

In accordance with ASC 855, management evaluated all of our activities through the issue date of the financial statements and concluded that except as described below, no other subsequent events have occurred that would require recognition or disclosure in the financial statements. We do however discuss all subsequent events in our Managements' Discussion and Analysis documents and filings.

On May 15, 2018 the company closed additional financing in the form of OID Notes and Warrants in the amount of $400,000 face value, with Alpha Capital Anstalt and Chase Financing, Inc., the company's main financiers.

Error Repair

The company will endeavor to repair any and all errors that new sets of eyes find in this document after its posting, whether these errors are in spelling, grammatical, punctuational or numeric. We are not perfect and we remind the readers of this document that they are not perfect either.