

eDOC INNOVATIONS, INC.

FINANCIAL STATEMENTS

September 30, 2011 and 2010

eDOC INNOVATIONS, INC.
Grand Rapids, Michigan

FINANCIAL STATEMENTS
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CONTENTS

REPORT OF INDEPENDENT AUDITORS	1
FINANCIAL STATEMENTS	
BALANCE SHEETS.....	2
STATEMENTS OF INCOME.....	3
STATEMENTS OF STOCKHOLDERS' EQUITY.....	4
STATEMENTS OF CASH FLOWS.....	5
NOTES TO FINANCIAL STATEMENTS.....	6
SUPPLEMENTARY INFORMATION	
SCHEDULES OF REVENUES, COST OF GOODS SOLD AND SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	11

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders
eDOC Innovations, Inc.
Grand Rapids, Michigan

We have audited the accompanying balance sheets of eDOC Innovations, Inc., as of September 30, 2011 and 2010, and the related statements of income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of eDOC Innovations, Inc., as of September 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedules of revenues, costs of goods sold and selling, general and administrative expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Crowe Horwath LLP
Crowe Horwath LLP

Grand Rapids, Michigan
November 15, 2011

eDOC INNOVATIONS, INC.
BALANCE SHEETS
September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 208,249	\$ 178,224
Certificates of deposit	250,000	502,347
Accounts receivable	238,044	174,989
Accounts receivable - related party (Note 9)	8,605	13,684
Deferred income taxes (Note 3)	-	62,000
Equipment and supplies inventory	28,499	38,201
Prepaid expenses	<u>63,040</u>	<u>47,966</u>
Total current assets	796,437	1,017,411
Equipment and software		
Equipment	489,997	404,974
Software	1,167,050	831,588
Furniture and fixtures	160,335	160,335
Leasehold improvements	90,985	81,385
Software in process	<u>459,799</u>	<u>418,340</u>
	2,368,166	1,896,622
Less accumulated depreciation and amortization	<u>973,202</u>	<u>705,026</u>
	1,394,964	1,191,596
Other assets		
Intangible assets - net (Note 4)	2,612,850	2,880,837
Goodwill	993,667	993,667
Other assets	<u>220</u>	<u>285</u>
	<u>3,606,737</u>	<u>3,874,789</u>
	<u>\$ 5,798,138</u>	<u>\$ 6,083,796</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable - trade	\$ 57,112	\$ 100,835
Accounts payable - related party (Note 9)	27,037	16,474
Current portion of severance liability (Note 8)	-	92,530
Customer deposits	48,033	143,409
Deferred revenue	327,304	328,787
Other liabilities	<u>132,527</u>	<u>150,268</u>
Total current liabilities	592,013	832,303
Deferred income taxes (Note 3)	786,000	837,000
Stockholders' equity		
Common stock; \$0.001 par value; 20,000,000 shares authorized; 14,296,420 and 14,256,420 shares issued and outstanding at September 30, 2011 and 2010, respectively	14,296	14,256
Additional paid-in capital	5,843,356	5,755,744
Accumulated deficit	<u>(1,437,527)</u>	<u>(1,355,507)</u>
	<u>4,420,125</u>	<u>4,414,493</u>
	<u>\$ 5,798,138</u>	<u>\$ 6,083,796</u>

See accompanying notes to financial statements.

eDOC INNOVATIONS, INC.
STATEMENTS OF INCOME
Years ended September 30, 2011 and 2010

	<u>2011</u>		<u>2010</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Revenues (Note 9)	\$ 3,770,735	100.00 %	\$ 3,544,181	100.00 %
Cost of goods sold	<u>616,778</u>	<u>16.36</u>	<u>409,468</u>	<u>11.55</u>
Gross margin	3,153,957	83.64	3,134,713	88.45
Selling, general and administrative expenses	<u>3,145,026</u>	<u>83.40</u>	<u>2,886,091</u>	<u>81.43</u>
Income before other income (expense) and income taxes	8,931	0.24	248,622	7.02
Other income (expense)				
Interest income	5,235	0.14	9,841	0.27
Miscellaneous income	22,999	0.61	9,298	0.26
Interest expense	<u>(2,720)</u>	<u>(0.07)</u>	<u>(10,925)</u>	<u>(0.31)</u>
	<u>25,514</u>	<u>0.68</u>	<u>8,214</u>	<u>0.22</u>
Income before provision for income taxes	34,445	0.92	256,836	7.24
Provision for income taxes (Note 3)	<u>47,464</u>	<u>1.26</u>	<u>174,139</u>	<u>4.91</u>
Net income (loss)	<u>\$ (13,019)</u>	<u>(0.34)%</u>	<u>\$ 82,697</u>	<u>2.33 %</u>

See accompanying notes to financial statements.

eDOC INNOVATIONS, INC.
 STATEMENTS OF STOCKHOLDERS' EQUITY
 Years ended September 30, 2011 and 2010

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Number of Shares Outstanding</u>	<u>Amount</u>			
Balance, October 1, 2009	14,256,420	\$ 14,256	\$ 5,755,744	\$ (1,400,925)	\$ 4,369,075
Dividends	-	-	-	(37,279)	(37,279)
Net income	-	-	-	82,697	82,697
Balance, September 30, 2010	14,256,420	14,256	5,755,744	(1,355,507)	4,414,493
Issuance of 80,000 shares	80,000	80	99,920	-	100,000
Redemption of 40,000 shares	(40,000)	(40)	(12,308)	(27,652)	(40,000)
Dividends	-	-	-	(41,349)	(41,349)
Net loss	-	-	-	(13,019)	(13,019)
Balance, September 30, 2011	<u>14,296,420</u>	<u>\$ 14,296</u>	<u>\$ 5,843,356</u>	<u>\$ (1,437,527)</u>	<u>\$ 4,420,125</u>

See accompanying notes to financial statements.

eDOC INNOVATIONS, INC.
STATEMENTS OF CASH FLOWS
Years ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Net income (loss)	\$ (13,019)	\$ 82,697
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	268,241	164,815
Amortization on intangible assets	267,987	267,987
Provision for bad debts	11,142	18,866
Deferred income tax expense	11,000	100,000
Change in assets and liabilities		
Accounts receivable	(74,197)	(88,207)
Accounts receivable - related parties	5,079	19,709
Prepaid expenses	(15,074)	5,405
Equipment and supplies inventory	9,702	(21,655)
Other assets	252,347	2,681
Accounts payable	(43,723)	(71,958)
Accounts payable - related parties	10,563	(34,136)
Severance liability	(92,530)	(116,075)
Other current liabilities	<u>(114,600)</u>	<u>(46,890)</u>
Net cash from operating activities	482,918	283,239
 Cash flows from investing activities		
Purchases of property and equipment	<u>(471,544)</u>	<u>(735,579)</u>
Net cash from investing activities	(471,544)	(735,579)
 Cash flows from financing activities		
Dividends paid	(41,349)	(37,279)
Proceeds from issuance of common stock	100,000	-
Redemption of common stock	<u>(40,000)</u>	<u>-</u>
Net cash from financing activities	<u>18,651</u>	<u>(37,279)</u>
 Net change in cash and cash equivalents	30,025	(489,619)
Cash and cash equivalents at beginning of year	<u>178,224</u>	<u>667,843</u>
Cash and cash equivalents at end of year	<u>\$ 208,249</u>	<u>\$ 178,224</u>
 Supplemental disclosure of cash flow information		
Cash paid during the year for		
Interest	\$ 2,720	\$ 10,925
Income taxes	41,983	96,720

See accompanying notes to financial statements.

NOTE 1 - NATURE OF BUSINESS

Nature of Business: eDOC Innovations, Inc. (the Company) provides software and specialized consulting services, specifically relating to document management systems, to credit unions and savings and loans institutions throughout the United States.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Statement of Cash Flows: For the purpose of the statement of cash flows, cash and cash equivalents include demand deposit accounts, savings accounts, money market accounts and instruments purchased with a maturity of three months or less. The Company may, at times, have deposits at financial institutions that exceed federally insured limits.

Certificates of Deposit: Certificates of deposit consist of bank time deposits with original maturity dates greater than 90 days and with remaining maturity dates of less than 365 days. These certificates of deposit have a fixed rate of interest which is paid upon maturity. They may not be redeemed before the maturity date without a penalty and are not transferable.

Accounts Receivable: The Company sells to customers using terms customary in their industry. Interest is not normally charged on receivables. Management establishes a reserve for losses on their accounts based on historic loss experience and current economic conditions. Losses are charged off to the reserve when management deems further collection efforts will not produce additional recoveries. These financial statements contain no allowance for doubtful accounts since management expects that receivables are fully collectible.

Equipment and Supplies Inventory: Inventories, which consist primarily of equipment and supplies for sale, are stated at the lower of cost or market, with cost determined by using the specific identification method.

Property and Equipment: Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided by use of straight-line and accelerated methods over the estimated useful lives of the assets. Leasehold improvements are depreciated over the estimated life or lease term, whichever is less. When properties are retired or otherwise disposed of, the appropriate accounts are relieved of cost and accumulated depreciation, and any resulting gain or loss is recognized.

Computer Software: The Company accounts for development costs related to software products to be sold, leased, or otherwise marketed as follows: software development costs are expensed as incurred until technological feasibility has been established, at which time such costs are capitalized until the product is available for general release to customers. These capitalized costs are subject to an ongoing assessment of recoverability based on anticipated future revenues and changes in hardware and software technologies. Costs that are capitalized include direct labor and consulting fees.

Amortization of capitalized software development costs begins when the product is available for general release to customers. Amortization is computed as the greater of (1) the ratio of current gross revenues for a product to the total of current and anticipated future gross revenues for the product or (2) the straight-line method over the estimated economic life of the product.

During the years ended September 30, 2011 and 2010, the Company capitalized \$460,417 and \$418,340 of product development costs, which have been recorded as software in process on the balance sheet. These projects are currently not available for general release to customers and therefore have not yet incurred amortization expense. Amortization expense on completed software development costs was \$150,725 and \$35,493 for the years ended September 30, 2011 and 2010, respectively.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Assets: Intangible assets consist of customer relationships and software. These assets are being amortized on a straight-line basis over their estimates lives of 15 years.

Goodwill: Goodwill resulted from the acquisition by the former Parent Company in 2006, in addition to the former Parent Company's additional equity investment in 2008. A deferred tax liability was recognized for the future financial statement deduction of amortizable intangible assets, which resulted in the recognition of goodwill. Goodwill is assessed at least annually for impairment, and any such impairment will be recognized in the period identified. Management has determined that there was no goodwill impairment in 2011 or 2010.

Software License and Maintenance Revenue: The Company sells and supports software products. Fees charged for the initial license agreement and conversion are recognized as revenue upon successful installation. Fees for ongoing support are recognized in income evenly over the support period. Deferred revenue consists of billings under the licensing agreements and prepaid maintenance agreements that are billed in advance per contracts, but relate to future periods.

Customer Deposits: Customer deposits represent advance payments received from customers for software purchases and installation. Revenue related to these contracts is recognized upon successful installation.

Income Taxes: The Company records income tax expense based on the amount of taxes due on its tax return plus deferred taxes computed based on the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

The Company adopted guidance issued by the FASB with respect to accounting for uncertainty in income taxes as of October 1, 2009. A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. The adoption had no effect on the Company's financial statements.

The Company recognizes interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. There were no amounts expensed or accrued as of and for the years ended September 30, 2011 and 2010, respectively, for tax related interest and penalties.

The Company is no longer subject to examination for federal tax years before 2007 and for state income taxes before 2006. The Company does not expect that total amount of unrecognized tax benefits to significantly increase or decrease in the next 12 months.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions may change in the near future resulting in different actual results. Estimates associated with allowance for doubtful accounts, deferred income taxes, software development costs and goodwill are particularly susceptible to material change in the near term.

eDOC INNOVATIONS, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2011 and 2010

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to September 30, 2011 to determine the need for any adjustments to and/or disclosures within these financial statements for the year ended September 30, 2011. Management has performed their analysis through November 15, 2011, the date the financial statements were available for issuance and has determined that there are no subsequent events to disclose.

NOTE 3 - INCOME TAXES

The provision for income taxes consists of the following:

	<u>2011</u>	<u>2010</u>
State income tax expense	\$ 36,464	\$ 74,139
Deferred tax expense	<u>11,000</u>	<u>100,000</u>
	<u>\$ 47,464</u>	<u>\$ 174,139</u>

Deferred tax assets and liabilities are as follows:

	<u>2011</u>	<u>2010</u>
Deferred tax assets	\$ 64,000	\$ 215,000
Deferred tax liabilities	<u>(850,000)</u>	<u>(990,000)</u>
	<u>\$ (786,000)</u>	<u>\$ (775,000)</u>

Income tax expense differs from expense at statutory rates due to the effect of graduated tax rates, and nondeductible expenses. Significant temporary differences between the financial statements and the tax return include intangible assets, accumulated depreciation, accumulated amortization, certain accrued liabilities and net operating loss carryforwards. The net operating loss carryforwards for the Company of approximately \$245,000 will expire in varying amounts through 2030.

eDOC INNOVATIONS, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2011 and 2010

NOTE 4 - INTANGIBLE ASSETS

Intangible assets consist of the following:

	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Amount</u>
September 30, 2011			
Customer relationships	\$ 3,740,981	\$ 1,712,863	\$ 2,028,118
Software	<u>1,078,629</u>	<u>493,897</u>	<u>584,732</u>
Total intangible assets, net	<u>\$ 4,819,610</u>	<u>\$ 2,206,760</u>	<u>\$ 2,612,850</u>
September 30, 2010			
Customer Relationships	\$ 3,740,981	\$ 1,504,850	\$ 2,236,131
Software	<u>1,078,629</u>	<u>433,923</u>	<u>644,706</u>
Total intangible assets, net	<u>\$ 4,819,610</u>	<u>\$ 1,938,773</u>	<u>\$ 2,880,837</u>

Amortization expense included in selling, general and administrative expenses was \$267,987 for the years ended September 30, 2011 and 2010.

The estimated aggregate amortization expense for the next five years and thereafter is as follows:

2012	\$ 267,987
2013	267,987
2014	267,987
2015	267,987
2016	267,987
Thereafter	1,272,915

NOTE 5 - COMMON STOCK

On June 22, 2010 the Company issued a private offering to sell up to 2,000,000 shares of its common stock at a price of \$1.25 per share. Proceeds from the sale of shares are to provide additional working capital and to redeem up to 1,000,000 shares held by an officer of the Company, at \$1.00 per share pursuant to a stock redemption agreement entered into by and between the Company and the officer dated June 22, 2010. Pursuant to the agreement, the officer may at his option sell to the Company a number of shares equal to one-half of the shares purchased by investors pursuant to the private offering up to an aggregate of 1,000,000 shares. As of September 30, 2010, the Company had not sold any shares, or redeemed any shares.

During 2011, the Company sold 80,000 shares of common stock with proceeds of \$100,000 and redeemed 40,000 shares of common stock for \$40,000.

eDOC INNOVATIONS, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2011 and 2010

NOTE 6 - LEASES

The Company has entered into numerous noncancelable operating lease agreements for various facilities, equipment and vehicles with lease terms expiring at various dates through the year 2015. Rent expense under these leases for the years ended September 30, 2011 and 2010 approximated \$160,574 and \$129,973, respectively.

Future minimum lease commitments are as follows:

2012	\$ 165,554
2013	173,025
2014	133,118
2015	<u>43,893</u>
	<u>\$ 515,590</u>

NOTE 7 - RETIREMENT PLANS

The Company sponsors a defined contribution plan. The plan does not contain a provision for employer match or profit-sharing. As such, no such expense or liability is recorded for and at the years ended September 30, 2011 and 2010.

NOTE 8 - SEVERANCE LIABILITY

At the end of November 2007, the Vice President of Operations of the Company submitted his resignation, to be effective February 1, 2008. The Company provided a severance package to the Vice President of Operations totaling approximately \$433,000 to be paid in monthly installments beginning February 1, 2008 through June 1, 2011. The Company recorded a current liability to the former owner \$92,530 at September 30, 2010 and paid the balance in full during 2011.

NOTE 9 - RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and a current stockholder is as follows:

	<u>2011</u>	<u>2010</u>
Management fee expense	\$ 144,000	\$ 144,000

Management fees from this stockholder represent fees for bookkeeping and human resource services performed by this stockholder of the Company. The agreement requires management fees of \$12,000 per month and expires on June 30, 2013.

The Company sells inventory and provides services to various stockholders in the normal course of business. Sales were approximately \$354,000 and \$543,000 during the years ended September 30, 2011 and 2010. At September 30, 2011 and 2010, amounts due from stockholders included in accounts receivable of \$8,605 and \$13,684, respectively. The Company also had accounts payable due to stockholders of \$27,037 and \$16,474 at September 30, 2011 and 2010, respectively.

SUPPLEMENTARY INFORMATION

eDOC INNOVATIONS, INC.
SCHEDULES OF REVENUES, COST OF GOODS SOLD AND SELLING,
GENERAL AND ADMINISTRATIVE EXPENSES
Years ended September 30, 2011 and 2010

	<u>2011</u>		<u>2010</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Revenues				
Software sales	\$ 516,473	13.70 %	\$ 522,723	14.75 %
Maintenance fee revenue	2,574,743	68.28	2,358,996	66.56
Hardware sales	226,739	6.01	280,413	7.91
Service Revenue	<u>452,780</u>	<u>12.01</u>	<u>382,049</u>	<u>10.78</u>
	3,770,735	100.00	3,544,181	100.00
Cost of goods sold	<u>616,778</u>	<u>16.36</u>	<u>409,468</u>	<u>11.55</u>
Gross margin	<u>\$ 3,153,957</u>	<u>83.64 %</u>	<u>\$ 3,134,713</u>	<u>88.45 %</u>
Selling, general and administrative expenses				
Salaries and wages	\$ 1,429,744	37.89 %	\$ 1,312,967	37.06 %
Employee benefits	291,249	7.72	321,451	9.07
Office and computer supplies	44,225	1.17	45,051	1.27
Utilities	111,896	2.97	105,790	2.98
Repairs and maintenance	59,832	1.59	35,261	0.99
Rent	160,574	4.26	129,973	3.67
Insurance	24,366	0.65	21,340	0.60
Depreciation and amortization	536,228	14.22	432,801	12.21
Bad debt expense	11,142	0.30	18,866	0.53
Professional services	53,412	1.42	53,759	1.52
Travel and entertainment	170,834	4.53	138,565	3.91
Advertising and promotion	10,109	0.27	20,650	0.58
Postage and freight	17,561	0.47	11,304	0.32
Purchased services	16,057	0.43	15,246	0.43
Property, sales tax and license fees	57,775	1.53	72,930	2.06
Management fees	144,000	3.82	144,000	4.06
Miscellaneous	<u>6,022</u>	<u>0.16</u>	<u>6,137</u>	<u>0.17</u>
	<u>\$ 3,145,026</u>	<u>83.40 %</u>	<u>\$ 2,886,091</u>	<u>81.43 %</u>