

**eDOC INNOVATIONS, INC.**

**FINANCIAL STATEMENTS**

September 30, 2009 and 2008

eDOC INNOVATIONS, INC.  
Grand Rapids, Michigan

FINANCIAL STATEMENTS  
September 30, 2009 and 2008

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## 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, 2009 and 2008, and the related statements of operations, 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, 2009 and 2008, 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 24, 2009

eDOC INNOVATIONS, INC.  
BALANCE SHEETS  
September 30, 2009 and 2008

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	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 667,843	\$ 23,189
Certificates of deposit	505,028	-
Accounts receivable	105,648	66,016
Accounts receivable - related parties	33,393	-
Equipment and supplies inventory	16,546	8,545
Prepaid other expenses	<u>53,371</u>	<u>27,437</u>
Total current assets	1,381,829	125,187
 Equipment and software		
Equipment	345,464	304,488
Software	313,619	197,107
Furniture and fixtures	127,669	112,715
Leasehold improvements	35,371	31,476
Software in process	<u>338,920</u>	<u>65,167</u>
	1,161,043	710,953
Less accumulated depreciation and amortization	<u>540,277</u>	<u>435,472</u>
	620,766	275,481
 Other assets		
Intangible assets - net (Note 4)	3,148,824	3,416,811
Goodwill	993,667	993,667
Other assets	<u>351</u>	<u>416</u>
	<u>4,142,842</u>	<u>4,410,894</u>
	<u>\$ 6,145,437</u>	<u>\$ 4,811,562</u>

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(Continued)

eDOC INNOVATIONS, INC.  
BALANCE SHEETS  
September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable - trade	\$ 172,793	\$ 104,719
Accounts payable - former Parent	50,610	16,378
Line of credit (Note 5)	-	275,000
Current portion of long-term debt (Note 7)	-	640,996
Current portion of severance liability (Note 11)	116,075	108,880
Note payable - Parent (Note 6)	-	75,000
Customer deposits	177,324	171,847
Deferred revenue	359,050	381,737
Other liabilities	<u>132,980</u>	<u>138,092</u>
Total current liabilities	1,008,832	1,912,649
Severance liability (Note 11)	92,530	199,239
Deferred income taxes (Note 3)	<u>675,000</u>	<u>479,716</u>
	767,530	678,955
Stockholders' equity		
Common stock; \$0.001 par value; 20,000,000 shares authorized; 14,256,420 and 10,256,420 shares issued and outstanding at September 30, 2009 and 2008	14,256	10,256
Additional paid-in capital	5,755,744	3,759,744
Accumulated deficit	<u>(1,400,925)</u>	<u>(1,550,042)</u>
	<u>4,369,075</u>	<u>2,219,958</u>
	 <u>\$ 6,145,437</u>	 <u>\$ 4,811,562</u>

See accompanying notes to financial statements.

eDOC INNOVATIONS, INC.  
STATEMENTS OF OPERATIONS  
Years ended September 30, 2009 and 2008

	<u>2009</u>		<u>2008</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<b>Revenues</b> (Note 12)	\$ 3,361,977	100.00 %	\$ 3,218,777	100.00 %
Cost of goods sold	<u>332,379</u>	<u>9.89</u>	<u>320,434</u>	<u>9.95</u>
<b>Gross margin</b>	3,029,598	90.11	2,898,343	90.05
Selling, general and administrative expenses	<u>2,682,488</u>	<u>79.79</u>	<u>2,948,398</u>	<u>91.60</u>
<b>Income (loss) before other income (expense) and income taxes</b>	347,110	10.32	(50,055)	(1.55)
Other income (expense)				
Interest income	16,575	0.49	6,636	0.21
Miscellaneous income	24,995	0.74	10,295	0.32
Loss on disposal of assets	-	-	(13,660)	(0.43)
Interest expense	<u>(20,985)</u>	<u>(0.62)</u>	<u>(91,490)</u>	<u>(2.84)</u>
	<u>20,585</u>	<u>0.61</u>	<u>(88,219)</u>	<u>(2.74)</u>
<b>Income (loss) before provision (benefit) for income taxes</b>	367,695	10.93	(138,274)	(4.29)
Provision (benefit) for income taxes (Note 3)	<u>218,578</u>	<u>6.50</u>	<u>(28,108)</u>	<u>(0.87)</u>
<b>Net income (loss)</b>	<u>\$ 149,117</u>	<u>4.43 %</u>	<u>\$ (110,166)</u>	<u>(3.42)%</u>

See accompanying notes to financial statements.

eDOC INNOVATIONS, INC.  
STATEMENTS OF STOCKHOLDERS' EQUITY  
Years ended September 30, 2009 and 2008

	<u>Preferred Stock</u>		<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>	<u>Number of Shares Outstanding</u>	<u>Amount</u>			
<b>Balance, October 1, 2007</b>	2,903,172	\$ 1,250,106	7,353,248	\$ 2,269,894	\$ -	\$ (1,439,876)	\$ 2,080,124
Conversion of 2,903,172 preferred stock shares to common stock shares; one-to-one basis (Note 8)	(2,903,172)	(1,250,106)	2,903,172	1,250,106	-	-	-
Push down of additional purchase price payment made by the Parent Company	-	-	-	-	250,000	-	250,000
Establishment of par value of common stock with amendment to the Articles of Incorporation on September 28, 2008	-	-	-	(3,509,744)	3,509,744	-	-
Net loss	-	-	-	-	-	(110,166)	(110,166)
<b>Balance, September 30, 2008</b>	-	-	10,256,420	10,256	3,759,744	(1,550,042)	2,219,958
Issuance of 4,000,000 common stock shares	-	-	4,000,000	4,000	1,996,000	-	2,000,000
Net income	-	-	-	-	-	149,117	149,117
<b>Balance, September 30, 2009</b>	<u>-</u>	<u>\$ -</u>	<u>14,256,420</u>	<u>\$ 14,256</u>	<u>\$ 5,755,744</u>	<u>\$ (1,400,925)</u>	<u>\$ 4,369,075</u>

See accompanying notes to financial statements.

eDOC INNOVATIONS, INC.  
STATEMENTS OF CASH FLOWS  
Years ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 149,117	\$ (110,166)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	108,883	100,951
Amortization on intangible assets	267,987	260,175
Loss on disposal of assets	-	13,660
Provision for bad debts	51,004	30,226
Deferred income tax expense (benefit)	195,284	(48,459)
Change in assets and liabilities		
Accounts receivable	(90,636)	89,337
Accounts receivable - related parties	(33,393)	-
Prepaid expenses and other assets	(25,934)	(16,492)
Inventory	(8,001)	(3,486)
Accounts payable	68,074	(94,606)
Accounts payable - former Parent	34,232	-
Severance liability	(99,514)	308,119
Other payables	<u>(22,322)</u>	<u>(133,852)</u>
Net cash from operating activities	594,781	395,407
 <b>Cash flows from investing activities</b>		
Proceeds from sales of equipment	-	4,005
Purchases of property and equipment	(454,103)	(186,060)
Purchases of certificates of deposit	<u>(505,028)</u>	<u>-</u>
Net cash from investing activities	(959,131)	(182,055)
 <b>Cash flows from financing activities</b>		
Payments on long-term debt	(715,996)	(341,134)
Net borrowings (payments) under line-of-credit agreement	(275,000)	25,045
Proceeds from issuance of common stock	<u>2,000,000</u>	<u>-</u>
Net cash from financing activities	<u>1,009,004</u>	<u>(316,089)</u>
 Net change in cash and cash equivalents	644,654	(102,737)
Cash and cash equivalents at beginning of year	<u>23,189</u>	<u>125,926</u>
<b>Cash and cash equivalents at end of year</b>	<u><u>\$ 667,843</u></u>	<u><u>\$ 23,189</u></u>
 Supplemental disclosure of cash flow information		
Cash paid during the year for		
Interest	\$ 31,776	\$ 85,173
Income taxes	23,294	20,351
 Supplemental disclosures of non-cash flow activity		
Conversion of preferred stock shares to common stock shares	\$ -	\$ 1,250,106
Intangible assets recorded as a result of the push down from the additional purchase price payment made by the Parent Company	-	250,000

See accompanying notes to financial statements.

eDOC INNOVATIONS, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2009 and 2008

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**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.

Company Ownership Changes: The Company was a majority-owned subsidiary of CU\*Answers, Inc. (the former Parent) at September 30, 2008. Accordingly, these financial statements reflect the purchase accounting adjustments recorded relating to the original purchase by the former Parent on July 7, 2006. In addition, during the year ended September 30, 2008, the former Parent Company increased its ownership percentage of the Company through the purchase of minority-owned shares and that push down has also been reflected in these financial statements (See Note 8). Effective October 10, 2008, an outside investor purchased 4,000,000 common stock treasury shares for \$2,000,000. This stock purchase resulted in an ownership change of the Company, in which the Company is no longer a majority-owned subsidiary of the former Parent as of September 30, 2009.

The Company does supply and purchase inventory and services from and to the former Parent (See Note 12).

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

Adoption of New Accounting Standard: The Company adopted FASB ASC 105 (formerly Statement No. 168), *Generally Accepted Accounting Principles – FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. The Financial Accounting Standards Board (FASB) Accounting Standards Codification (“Codification” or “ASC”) is the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with Generally Accepted Accounting Principles (“GAAP”). The Codification does not change current GAAP, but is intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. References to GAAP in these notes to the financial statements are provided under the Codification structure where applicable.

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.

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eDOC INNOVATIONS, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2009 and 2008

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**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

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, 2009 and 2008, the Company capitalized \$338,920 and \$65,167 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 \$3,504 and \$0 for the years ended September 30, 2009 and 2008, respectively.

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.

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eDOC INNOVATIONS, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2009 and 2008

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**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 (See Note 1). 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 2009 or 2008.

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 related 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.

FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), issued July 2006, was effective as of January 1, 2007. The Company has elected to defer adoption of FIN 48, in accordance with the provisions of FASB Staff Position No. FIN 48-3, which permits certain nonpublic enterprises to delay adoption until fiscal years beginning after December 15, 2008 (Both FIN 48 and FSP No. FIN 48-3 are included in FASB ASC 740 under the new codification). Upon adoption of FIN 48, the Company will recognize a tax benefit only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be 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 will be recorded. Currently, the Company accounts for contingencies associated with uncertain tax positions in accordance with SFAS No. 5, *Accounting for Contingencies* (FASB ASC 450 under the new codification), which provides the recording of a contingency based on the probability of certain events to transpire that range from probable to remote as opposed to applying a more-likely-than-not recognition threshold.

eDOC INNOVATIONS, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2009 and 2008

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**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 and deferred income taxes are particularly susceptible to material change in the near term.

Change in Accounting Estimate: During the year ended September 30, 2008, the Company changed its estimated useful lives and methods for amortizing their intangible assets. Customer relationships were being amortized over a period of seven years using an accelerated amortization method, while software was being amortized over a period of five years using the straight line method. Management revisited the expected future cash flows of the existing contracts at the acquisition date in which the Company was purchased by the former Parent, and determined the existing amortization periods and methods did not accurately reflect the expected future cash flows. Based on this revised analysis, the amortization period and method for both customer relationships and software were changed to fifteen years from the date of acquisition, using the straight line method. This change was made prospectively based on the unamortized net book values at September 30, 2007 and had the effect of reducing 2008 amortization expense by \$620,540, and decreasing the net loss for the year by \$409,557.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to September 30, 2009 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended September 30, 2009. Management has performed their analysis through November 24, 2009.

Reclassification: Certain prior year amounts have been reclassified to conform with the current year presentation. These reclassifications had no effect on net income (loss) or the accumulated deficit.

**NOTE 3 - INCOME TAXES**

The provision (benefit) for income taxes consists of the following:

	<u>2009</u>	<u>2008</u>
State income tax expense	\$ 23,294	\$ 20,351
Deferred tax expense (benefit)	<u>195,284</u>	<u>(48,459)</u>
	<u>\$ 218,578</u>	<u>\$ (28,108)</u>

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eDOC INNOVATIONS, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2009 and 2008

**NOTE 3 - INCOME TAXES** (Continued)

Deferred tax assets and liabilities are as follows:

	<u>2009</u>	<u>2008</u>
Deferred tax assets	\$ 400,000	\$ 682,000
Deferred tax liabilities	<u>(1,075,000)</u>	<u>(1,161,716)</u>
	<u>\$ (675,000)</u>	<u>\$ (479,716)</u>

Income tax expense (benefit) 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 \$700,000 will expire in varying amounts through 2020.

**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, 2009			
Customer relationships	\$ 3,740,981	\$ 1,296,837	\$ 2,444,144
Software	<u>1,078,629</u>	<u>373,949</u>	<u>704,680</u>
Total intangible assets, net	<u>\$ 4,819,610</u>	<u>\$ 1,670,786</u>	<u>\$ 3,148,824</u>
September 30, 2008			
Customer Relationships	\$ 3,740,981	\$ 1,088,824	\$ 2,652,157
Software	<u>1,078,629</u>	<u>313,975</u>	<u>764,654</u>
Total intangible assets, net	<u>\$ 4,819,610</u>	<u>\$ 1,402,799</u>	<u>\$ 3,416,811</u>

Amortization expense included in selling, general and administrative expenses was \$267,987 and \$260,175 for the year ended September 30, 2009 and 2008.

eDOC INNOVATIONS, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2009 and 2008

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**NOTE 4 - INTANGIBLE ASSETS (Continued)**

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

2010	\$ 267,987
2011	267,987
2012	267,987
2013	267,987
2014	267,987
Thereafter	1,808,889

**NOTE 5 - LINE OF CREDIT**

The Company had an available line of credit of \$500,000 with the Bank of American Fork, which expired on April 1, 2009. Interest was payable monthly at the prime rate plus 2.25% (7.25% at September 30, 2008). This line was secured by the personal guarantees of the shareholders in existence at September 30, 2008. The Company elected not to renew the line of credit. The Company is not subject to any financial covenants at September 30, 2009.

The Company had borrowings on the line of credit totaling \$0 and \$275,000 at September 30, 2009 and 2008, respectively.

**NOTE 6 - NOTE PAYABLE - PARENT**

The Company had an unsecured note payable with the former Parent, dated September 11, 2007 that had a maturity date of September 12, 2011. The note carried an initial interest rate of 9.25% through September 11, 2008 at which time the rate reset annually on the anniversary date of the note to be equal to the prime rate plus 1% (6.00% at September 30, 2008). Interest only payments were due quarterly. During the year ended September 30, 2009, the Company paid the balance due the former Parent in full. As such, the outstanding balance of \$75,000 at September 30, 2008 was classified as current on the balance sheet.

eDOC INNOVATIONS, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2009 and 2008

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**NOTE 7 - LONG-TERM DEBT**

Long-term debt consists of the following:

	<u>2009</u>	<u>2008</u>
Note payable to the Bank of American Fork; dated August 22, 2006; due in monthly installments of \$32,095 through September 2009, including interest at 9.50%, at which time the remaining principal is due; secured by specific assets of the Company and its Parent. The remaining balance was paid in full during the year ended September 30, 2009.	\$ -	\$ 368,820
Note payable to former employee; due in quarterly installments ranging from \$20,000 to \$100,000 through December 2007, plus interest at 1.49%. The balance was paid in full during the year ended September 30, 2009. See Note 13.	<u>-</u>	<u>272,176</u>
	<u>-</u>	<u>640,996</u>
Less current portion of long-term debt	<u>-</u>	<u>640,996</u>
	<u>\$ -</u>	<u>\$ -</u>

**NOTE 8 - PREFERRED AND COMMON STOCK**

During the year ended September 30, 2008, the former Parent Company purchased an additional 693,310 common stock shares from the then minority shareholder of the Company, for \$250,000. In addition, the 2,903,172 preferred stock shares owned by the former Parent were converted to common stock shares, on a one-to-one basis.

As noted in Note 1, during the year ended September 30, 2009, the Company issued 4,000,000 shares of common stock treasury shares to an outside investor for \$2,000,000.

**NOTE 9 - 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 2014. Rent expense under these leases for the years ended September 30, 2009 and 2008 approximated \$120,462 and \$143,518, respectively.

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eDOC INNOVATIONS, INC.  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 9 - LEASES (Continued)**

Future minimum lease commitments are as follows:

2010	\$ 104,581
2011	100,428
2012	100,428
2013	100,428
2014	<u>59,995</u>
	<u>\$ 465,860</u>

**NOTE 10 - RETIREMENT PLANS**

During fiscal 2008, the Company terminated its existing defined benefit plan. As a result, the Company paid out approximately \$9,600 in amounts due eligible employees.

The Company also 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, 2009 and 2008.

**NOTE 11 - 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 present value of future cash flows of \$387,180 relating to this severance package was expensed during the year ended September 30, 2008.

**NOTE 12 - RELATED PARTY TRANSACTIONS**

Balances and transactions between the Company and its former Parent are as follows:

	<u>2009</u>	<u>2008</u>
Management fee expense	\$ 126,000	\$ 84,000
Interest expense	399	6,957

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eDOC INNOVATIONS, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2009 and 2008

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**NOTE 12 - RELATED PARTY TRANSACTIONS (Continued)**

Management fees from the former Parent represent fees for bookkeeping and human resource services performed by the former Parent on behalf of the Company.

All interest charged to the Company by the former Parent is for a loan made directly by the former Parent to the Company (see Note 6).

The Company also had accounts payable due to the former Parent of \$50,610 and \$16,378 at September 30, 2009 and 2008, respectively.

The Company sells inventory and provides services to various shareholders, including the former Parent, in the normal course of business. Sales were approximately \$486,000 and \$93,800 during the years ended September 30, 2009 and 2008. At September 30, 2009 and 2008, amounts due from shareholders included in accounts receivable - related parties were \$33,393 and \$0, respectively.

**NOTE 13 - COMMITMENTS AND CONTINGENCIES**

The Company had a note payable outstanding with a former employee in the amount of \$194,246, due December 2007 per terms of the agreement. The former employee had filed suit against the Company and, based on negotiations occurring during the year, management believed a reasonable estimate of the total liability due this claim is approximately \$272,000 at September 30, 2008. The note payable was paid in full in the amount of \$275,000 during the year ended September 30, 2009.

**SUPPLEMENTARY INFORMATION**

eDOC INNOVATIONS, INC.  
SCHEDULES OF REVENUES, COST OF GOODS SOLD AND SELLING,  
GENERAL AND ADMINISTRATIVE EXPENSES  
Years ended September 30, 2009 and 2008

	<u>2009</u>		<u>2008</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Revenues				
Software sales	\$ 460,413	13.70 %	\$ 333,327	10.36 %
Maintenance fee revenue	2,365,875	70.37	2,303,822	71.57
Hardware sales	284,512	8.46	366,574	11.39
Service Revenue	<u>251,177</u>	<u>7.47</u>	<u>215,054</u>	<u>6.68</u>
	3,361,977	100.00	3,218,777	100.00
Cost of goods sold	<u>332,379</u>	<u>9.89</u>	<u>320,434</u>	<u>9.95</u>
Gross margin	<u>\$ 3,029,598</u>	<u>90.11 %</u>	<u>\$ 2,898,343</u>	<u>90.05 %</u>
Selling, general and administrative expenses				
Salaries and wages	\$ 1,336,435	39.75 %	\$ 1,680,109	52.20 %
Employee benefits	250,780	7.46	227,357	7.06
Office and computer supplies	38,584	1.15	17,362	0.54
Utilities	76,095	2.26	79,868	2.48
Repairs and maintenance	31,518	0.94	20,240	0.63
Rent	120,462	3.58	143,518	4.46
Insurance	14,506	0.43	14,498	0.45
Depreciation and amortization	376,870	11.21	361,126	11.22
Bad debt expense	51,004	1.52	30,226	0.94
Professional services	41,611	1.24	74,941	2.33
Travel and entertainment	124,864	3.71	89,958	2.79
Advertising and promotion	7,024	0.21	-	-
Postage and freight	11,529	0.34	10,671	0.33
Purchased services	10,395	0.31	4,360	0.14
Property, sales tax and license fees	55,535	1.65	84,997	2.64
Management fees	126,000	3.75	105,945	3.29
Miscellaneous	<u>9,276</u>	<u>0.28</u>	<u>3,222</u>	<u>0.10</u>
	<u>\$ 2,682,488</u>	<u>79.79 %</u>	<u>\$ 2,948,398</u>	<u>91.60 %</u>