# SEMI-ANNUAL UNAUDITED REPORT FOR THE SIX MONTHS ENDED August 31, 2017 and 2016

# QUADLOGIC CONTROLS CORPORATION

**33-00 Northern Blvd, 2nd Floor**
**Long Island City, NY 11101**

**QUADLOGIC CONTROLS CORPORATION**
**UNAUDITED CONDENSED BALANCE SHEETS**
**(In thousands, except per share data)**

| | August 31, 2017 | August 31, 2016 |
|---|---|---|
| **Assets** | | |
| **Current Assets:** | | |
| Cash | $ 65 | $ 136 |
| Accounts receivable | 2,028 | 1,964 |
| Inventories | 1,700 | 1,520 |
| Prepaid expenses and other current assets | 134 | 195 |
| **Total Current Assets** | 3,927 | 3,815 |
| **Property and Equipment, Net** | 770 | 859 |
| **Other Assets**: | | |
| Patent & Trademark costs, net | 414 | 446 |
| Other assets | 354 | 841 |
| Lease deposit | 192 | 192 |
| **Total Other Assets** | 960 | 1,479 |
| **Total Assets** | $ 5,657 | $ 6,153 |
| **Liabilities and Shareholders' Deficit** | | |
| **Current Liabilities:** | | |
| Current maturities of installment debt | $ - | $ 60 |
| Debt obligations – preferred shareholders | - | 83 |
| Accounts payable | 1,621 | 1,616 |
| Customer deposits | 115 | 271 |
| Accrued expenses and other liabilities | 758 | 1,041 |
| Current portion of accrued compensation | 608 | 562 |
| **Total Current Liabilities** | 3,102 | 3,633 |
| **Non-current Liabilities:** | | |
| Accrued compensation | 590 | 583 |
| Secured line of credit – borrowings | 870 | 1,267 |
| Other non-current liabilities | 920 | 1,197 |
| **Total Non-current Liabilities** | 2,380 | 3,047 |
| **Total Liabilities** | **5,482** | **6,680** |
| **Shareholders' equity** | | |
| Common stock, $0.001 par value; 20,000,000 shares authorized, 11,373,351 shares and 11,313,351 shares issued and outstanding in 2017 and 2016, respectively | 11 | 11 |
| Additional paid-in capital | 9,500 | 9,485 |
| Accumulated deficit | (9,336) | (10,038) |
| **Total Shareholders' Equity (Deficit)** | 175 | (527) |
| **Total Liabilities and Shareholders' Deficit** | $ 5,657 | $ 6,153 |

**QUADLOGIC CONTROLS CORPORATION**
**UNAUDITED CONDENSED STATEMENTS OF OPERATIONS**
**(In thousands, except per share data)**

| | August 31, 2017 | August 31, 2016 |
|---|---|---|
| **Revenues:** | | |
| Meter Sales | $ 3,737 | $ 2,962 |
| Royalty Income | 1,000 | 500 |
| Billing and technical services | 2,711 | 2,402 |
| **Total Revenues** | 7,448 | 5,864 |
| **Cost of Goods Sold:** | | |
| Cost of meters sold | 2,405 | 2,154 |
| Cost of billing and technical services | 1,411 | 1,424 |
| **Total Cost of Goods Sold** | 3,816 | 3,578 |
| **Gross Profit** | 3,632 | 2,286 |
| **Operating Expenses:** | | |
| Selling | 858 | 793 |
| Research and development | 744 | 639 |
| General and administrative | 1,697 | 1,138 |
| **Total Operating Expenses** | 3,299 | 2,570 |
| **Operating Income (Loss)** | 333 | (284) |
| **Other Expense:** | | |
| Interest expense | (68) | (96) |
| Other expense, net | (16) | (15) |
| **Total Other Expense** | (84) | (111) |
| **Net Income (Loss)** | **$ 249** | **$ (395)** |
| Net earnings (loss) per share: | | |
| Basic | $ 0.02 | $ (0.03) |
| Shares used in computing basic earnings per share | 11,373,351 | 11,373,351 |
| Diluted | $ 0.02 | $ (0.03) |
| Shares used in computing diluted earnings per share | 11,743,111 | 11,683,111 |

**QUADLOGIC CONTROLS CORPORATION**
**UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS**
**(In thousands)**

| | August 31, 2017 | August 31, 2016 |
|---|---|---|
| **Cash Flows From Operating Activities:** | | |
| Net income (loss) | $ 249 | $ (395) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for doubtful accounts | 12 | 12 |
| Depreciation and amortization | 99 | 95 |
| Stock-based compensation | 35 | 10 |
| Patent abandonment | 25 | - |
| Changes in assets and liabilities: | | |
| Accounts receivable | (22) | 209 |
| Inventories | (138) | (38) |
| Prepaid expenses and other current assets | 61 | 236 |
| Accounts payable | (205) | (110) |
| Customer deposits | (75) | (52) |
| Accrued expenses and other liabilities | (37) | 419 |
| Accrued compensation | (23) | (13) |
| Other non-current liabilities | (245) | (31) |
| **Net Cash Provided By Operating Activities** | (264 | 342 |
| **Cash flows from investing activities:** | | |
| Purchases of property and equipment | (13) | ( 81) |
| Patent acquisition costs | (17) | 6 |
| **Net Cash Used In Investing Activities** | (30) | (75) |
| **Cash Flows From Financing Activities:** | | |
| Principal payments on debt | (28) | (80) |
| Borrowing from line of credit | 7,692 | 6,558 |
| Repayments of line of credit | (7,433) | (6,880) |
| **Net Cash (Used in) Provided By Financing Activities** | 231 | (402) |
| Net (Decrease) Increase In Cash | (63) | (135) |
| Cash Beginning of Year | 128 | 271 |
| **Cash End of Year** | $ 65 | $ 136 |

# Quadlogic Controls Corporation

## Notes to Financial Statements

### Interim Financial Statements

The unaudited condensed interim financial information furnished herein reflects all adjustments, consisting only of normal recurring items, which in the opinion of management are necessary to fairly state our financial position, results from operations and cash flows for the date and period presented and to make such information presented not misleading. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted; nevertheless, the Company believes that the disclosures herein are adequate to make the information presented not misleading. Operating results for the six months ended August 31, 2017 and August 31, 2016 are not necessarily indicative of the results that may be expected for future periods. The balance sheets, operating results, and statements of cash flows for the periods ended August 31, 2017 and 2016 were neither audited nor reviewed by an independent accounting firm and are subject to change upon such a review or audit being completed.

### 1. Summary of Significant Accounting Policies

This summary of the significant accounting policies of Quadlogic Controls Corporation ("Quadlogic" or the "Company") is presented to assist in the understanding of the financial statements. The financial statements and notes are representations of the Company's management, who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to U.S. generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

***History and Business Activity***

The Company is engaged in the business of electricity metering, monitoring and control. All Quadlogic metering products feature the company's proprietary robust power line communications technology. The business consists of four segments. First is the design, manufacture and sale of the Company's "smart" metering system, a line of digital, microprocessor-controlled meters that, in communication with the Quadlogic Transponder, measures and remotely monitors the time and amount of electricity consumption and other diagnostics. The second segment supports the first and consists of technical services including meter reading, customer billing, and system repair and maintenance. The third segment, the Energy Guard ™ system of concentrated metering, is sold primarily to utilities in countries where electricity theft is common. It consists of pole-mounted sealed panels of meters, remote data concentrators and sub-station based data collectors capable of remote metering, theft and tamper detection and remote power disconnect and reconnect. The fourth segment is comprised of royalties from licensees producing and selling our Energy Guard system under licensing arrangements The Company's customers include real estate development and construction companies, owners and operators of multi-tenant commercial and residential buildings, distributors and foreign electric utility companies, and licensees

The Company's stock is not listed on any organized exchange but is traded on the over-the-counter market. The Company's common stock is quoted on the OTC Markets (Pink) and experiences limited trading activity.

***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. Actual results could differ from those estimates.

***Accounts Receivable***

The Company carries its accounts receivable at cost less allowances for doubtful accounts and returns. On a periodic basis, the Company evaluates its accounts receivable and establishes allowances for doubtful accounts and returns based on a history of past write-offs, collections, returns and current conditions.

***Revenue Recognition***

The Company recognizes revenue from the sale of electric metering equipment at the time of shipment to the customer. Revenues from installation contracts are recognized using the proportional performance method based upon the percentage of costs incurred to total estimated costs. Revenues from meter, read and bill services, and from repair and technical services are recognized at the time the services are rendered. Royalty revenue is recognized as received.

***Cost of Revenues***

Cost of revenues is comprised of cost of materials, direct labor and overhead expenses. Cost of materials consists primarily of materials used in production of metering equipment, freight and duties, inventory adjustments and reserves, and parts consumed by billing, field, technical, and repair services. Direct labor includes salaries for production, billing, field and repair services. Overhead expenses consist primarily of salaries for production support, technical and quality control, payroll taxes and benefits, rent and utilities, depreciation and insurance, professional fees, packing and shipping supplies, and other related expenses.

***Operating Expenses***

*Sales and Marketing.* Sales and marketing expenses consist primarily of salaries, commissions, payroll taxes and benefits, consulting fees, and other related selling expenses.

*Research and Development.* Research and development expenses consist primarily of salaries, payroll taxes and benefits, product development, depreciation, and other related expenses. Costs related to the development of new products and enhancements to existing products are charged to operations as incurred.

*General and Administrative.* General and administrative expenses include allocated facilities cost, finance, payroll and human resources, legal, auditing, and other administrative functions. The expenses associated with these functions consist primarily of salaries, payroll taxes and benefits, rent, professional and director's fees, depreciation, credit and collection, and other related expenses.

***Other expenses, net***

Other expenses, net consist primarily of interest expense, and credit line and loan collateral monitoring fees. Interest expense includes primarily loans, debt obligations to preferred shareholders, and other related expenses.

***Fair Value of Financial Instruments***

The Company follows the provisions of Financial Accounting Standards Board ("FASB") ASC- 820 which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC- 820 establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs).

The carrying value of the Company's cash, accounts receivable and accounts payable approximates their fair values based on the short-term nature of such items. The carrying value of the installment debt and secured line of credit approximates fair value since the interest rate is at terms currently available to the Company. The fair value of the installment debt and secured line of credit at August 31, 2017 and 2016 was approximately \$-0- and \$60,000 and \$870,000 and \$1,267,000, respectively.

***Inventories***

Inventories are stated at the lower of cost or market, with cost determined on the first-in, first-out basis.

# Quadlogic Controls Corporation

## Notes to Financial Statements

***Depreciation and Amortization***

Depreciation and amortization are provided principally on the straight-line method over the estimated useful lives of the related assets, as follows:

| | |
|---|---|
| Machinery and equipment | 5 years |
| Office furniture and equipment | 3-7 years |
| Computer equipment and software costs | 3-5 years |
| Tools, dies and molds | 3 years |

Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the term of the lease.

Expenditures for maintenance and repairs are expensed currently, while renewals and betterments that materially extend the life of an asset are capitalized. The cost of assets sold, retired, or otherwise disposed of, and the related allowance for depreciation, are eliminated from the accounts, and any resulting gain or loss is recognized.

***Patents and Trademarks***

The Company owns various patents of technology concerning its electronic metering systems and processes, and also owns two trademarks. The costs associated with the acquisition of patents, and the costs of registering the patents and trademarks are capitalized and amortized on the straight-line basis over their remaining lives. Amortization expense for the six months ended August 31, 2017 and 2016 amounted to approximately $13,500 and $12,700, respectively.

***Shipping and Handling***

Shipping and handling costs incurred in shipping products to customers are expensed as incurred and included in cost of meters sold. Shipping costs totaled approximately $59,000 and $48,000 for the six months ended August 31, 2017 and 2016, respectively. All shipping and handling costs billed to customers are recorded in revenue.

***Stock-based Compensation***

The Company follows the provisions of ASC 718, for stock-based compensation. This statement requires entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award over the service period.

**2. Deferred Taxes**

The Company provides for income taxes and recognizes deferred tax assets and liabilities on the balance sheet using the liability method for income taxes. The liability method requires that all deferred tax balances be determined by using the applicable tax rate expected to be in effect when the taxes will actually be paid or when refunds are received. The applicable tax rate is applied to the differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. The resulting deferred tax asset or liability is adjusted to reflect changes in tax laws as they occur. Valuation allowances are established, if necessary, to reduce the deferred tax assets and liabilities.

### 3. Concentration of Credit Risk

The Company maintains its cash balances in financial institutions in New York. From time to time, the Company has cash balances that may exceed Federally insured limits.

The Company's trade receivables are potentially subject to credit risk. The Company extends credit to its customers based upon an evaluation of the customers' financial condition and credit history. The Company's policies do not require collateral to support accounts receivable. However, because of the diversity and creditworthiness of the individual accounts that comprise the total balance, management does not believe that the Company is subject to any significant credit risk.

### 4. Inventories

Inventories consisted of the following at six months ended ($ in thousands):

| | August 31, 2017 | August 31, 2016 |
|---|---|---|
| Raw materials | $ 800 | $ 685 |
| Work-in-progress | 706 | 943 |
| Finished goods | 548 | 733 |
| Total inventories | $ 2,054 | $ 2,361 |

### 5. Property and Equipment

Property and equipment consisted of the following at six months ended ($ in thousands):

| | August 31, 2017 | August 31, 2016 |
|---|---|---|
| Machinery and equipment | $ 1,258 | $ 1,191 |
| Office furniture and equipment | 416 | 416 |
| Leasehold improvements | 1,574 | 1,574 |
| Computer equipment and software costs | 181 | 181 |
| Tools, dies and molds | 266 | 240 |
| Less accumulated depreciation and amortization | (2,925) | (2,743) |
| Property and equipment, net | $ 770 | $ 859 |

### 6. Secured Credit Line

On October 1, 2012 the Company entered into a new two-year loan agreement expiring October 1, 2014; on January 22, 2018, the loan agreement was amended to continue in full force and affect for a term ending October 31, 2019 and shall automatically renew from year to year thereafter until terminated by either party for a $2,000,000 total revolving line of credit facility with Entrepreneur Growth Capital, LLC (EGC). The maximum loans and advances against accounts receivable is $2,000,000 and against inventory is $250,000. EGC agrees, at borrower's request, to periodically re-evaluate the Total Facility and may increase the facility but not to exceed $5,000,000. This line of credit is secured by the Company's trade receivables, deposit accounts, equipment, machinery, furniture and fixtures. Borrowings under the credit facility bear interest at prime plus 3% for loans made against accounts receivable and interest at prime plus 5% for loans made against inventory. The minimum monthly interest charge is $4,000 for a credit line of $1,250,000 and increases to $5,000 when total credit line exceeds $1,250,000. The agreement includes collateral monitoring fees and an annual facility fee of 2% on the line of credit. The amount borrowed at August 31, 2017 and 2016 was approximately $870,000 and $1,267,000, respectively.

### 7. Convertible Preferred Stock

The Company is authorized to issue 5,000,000 shares of $.001 par value preferred stock, including 4,000,000 shares of Series A Convertible Preferred stock. The shares may be designated and issued by the board of directors at anytime in one or more series that will have voting rights, mandatory dividends, convertible features, and/or preferences that have not been given to shares of any other series of the Company's common stock.

Series A Convertible Preferred stock accrues cumulative dividends at the rate of 9% per annum, which are payable if and when declared by the Company's board. Each share of preferred stock is convertible into 1.25 shares of common stock at the option of the holder at any time. The Company was required to redeem any unconverted shares at the original purchase price, plus accrued dividends, upon the sale of the Company's business or a public offering of its stock, but in no event later than February 29, 2008. On February 25, 2008 the Board of Directors of the Corporation extended the redemption date to August 31, 2009 followed by the consent in writing of at least 66% of the outstanding shares. The extended redemption date expired and the Company was in default of the agreement. The Company has reclassified to current debt the preferred stock with an original face amount of $399,000 plus accrued dividends of $697,997 as of February 28, 2010. In November 2010, the Company instituted a voluntary monthly buyback program to retire the outstanding principal amount and accrued dividends. The balance due in principal as of August 31, 2017 and 2016 was $-0- and accrued dividends was approximately $-0- and $83,000, respectively.

## 8. Commitments and Contingencies

In fiscal year 2007, the Company entered into a lease agreement for its facilities. The lease commenced July 1, 2007 and expires June 30, 2022. The lease is for a 15-year period with an option to buy-out the remainder of the lease term at the end of 10 years. The lease provides for minimum annual rentals plus real estate taxes and escalation charges. The facilities are located within an area that qualifies the Company for certain New York City income tax credits.

Rent expense charged to operations net of income tax credits amounted to approximately $439,000 and $427,000, for the six months ended August 31, 2017 and 2016, respectively.

Future minimum annual rental payments under the non-cancelable operating lease are as follows:

| Year ending February 28, | |
|---|---|
| 2018 | $ 472 |
| 2019 | 944 |
| 2020 | 944 |
| 2021 | 944 |
| 2022 | 944 |
| Thereafter | 314 |
| | $4,562 |

## 9. Income Taxes

As of August 31, 2017, the Company had federal, state and city net operating loss carryforwards of approximately $4,550,000 available to reduce any future taxable income. The federal net operating loss carryforwards begin expiring in February 28, 2030.

The Company follows FASB ASC 740-10 (FASB Interpretation No. 48) "Accounting for Uncertainty in Income Taxes" which clarifies the accounting for uncertainty in income taxes recognized in and entity's financial statement disclosure of tax provisions taken or expected to be taken on a tax return. The Company has not identified any uncertain tax positions that would require a provision of a liability under ASC 740-10.

### 10. Stock Option Plan and Warrants

The Company recognized no compensation expense arising from stock options issued to employees for six months ended August 31, 2017 and 2016, respectively.

On September 1, 1999, the board of directors adopted the 1999 Stock Option Plan (the "1999 Plan"). This was approved by the shareholders in April 2000. The 1999 Plan provides for the granting of options to officers, directors, employees, and consultants to purchase up to 2,000,000 shares of the Company's common stock. The 1999 Plan expired September 2009.

A summary of stock option activity related to the Company's 1999 Stock Option Plan for the six months ended August 31, 2016 is as follows:

| | Number of shares | Weighted average exercise price per share | Expiration date of options |
|---|---|---|---|
| **Outstanding February 28, 2016** | 20,000 | $1.25 | 5/18/16 |
| Forfeited | (20,000) | | |
| **Outstanding August 31, 2016** | - | | |

As of August 31, 2016, 20,000 of the employee options expired, no balance left as of August 31, 2017 and 2016.

Effective February 2012, the company compensates each independent director at $40,000 annually and grants each independent director 30,000 shares of the Company's common stock which vest immediately. Effective July 2017, the Board was increased by two directors. The Board now consists of (4) outside directors and (1) employee/director.

There was $35,000 and $10,000 of compensation expense arising from stock granted to the independent directors for six months ended August 31, 2017 and 2016, respectively.

There was no compensation expense arising from stock options issued to independent directors for both August 31, 2017 and 2016.

As of August 31, 2017 and 2016, there were no outstanding director's options.

***Warrants***

The Company has granted warrants to purchase shares of its common stock in connection with various equity transactions. There were 249,760 warrants outstanding during the six months ended August 31, 2017 and 2016 respectively.

The Company uses the Black-Scholes pricing model to value warrants. The value of each warrant granted is estimated on the date of the grant.

# Quadlogic Controls Corporation

## Notes to Financial Statements

### 11. Results from Operations

The following table sets forth our historical operating results as a percentage of total revenues for the periods indicated:

| | Statements of Operations | |
|---|---|---|
| | August 31, 2017 | August 31, 2016 |
| Total revenues | 100% | 100% |
| Cost of revenues | 51% | 61% |
| Gross Margin | 49% | 39 % |
| Operating expenses | | |
| Selling | 12% | 12% |
| Research and development | 10% | 11% |
| General and administrative | 23% | 19% |
| Total operating expenses | 45% | 42% |
| Operating income (loss) | 4% | -5% |

***Earnings Per Share***

Basic income or loss per share is computed using the net income or loss and the weighted average number of common shares outstanding during the period. Diluted income per share is computed using the net income and the weighted average number of common shares and dilutive potential common shares outstanding during the period. Potential dilutive common shares include, for some or all of the periods presented, outstanding stock grants, options and warrants. The dilutive effect of outstanding stock options and warrants is computed using the treasury stock method. As of August 31, 2017 and 2016, there were 369,760 and 309,760 outstanding stock grants, options and warrants to purchase shares of the Company's common stock, respectively.

The following table sets forth the computation of basic and diluted net income or loss attributable to common stockholders:

| | August 31, 2017 | August 31, 2016 |
|---|---|---|
| **In thousands, except per share amounts** | | |
| Numerator: | | |
| Net Income /(Loss) | $ 249 | $ (395) |
| Denominator: | | |
| Shares used to compute basic EPS | 11,373 | 11,373 |
| Effect of Dilutive Securities: | | |
| Diluted common shares | 370 | 310 |
| Weighted-average shares used to compute diluted EPS | 11,743 | 11,683 |
| Net earnings / (loss) per share: | | |
| Basic | $ 0.02 | $ (0.03) |
| Diluted | $ 0.02 | $ (0.03) |

### *EBITDA*

We define Adjusted EBITDA as net income or (loss) excluding net interest income, income taxes, depreciation and amortization, and non-cash stock-based compensation expense. Our EBITDA was approximately $451,000 and $(194,000) for six months ended August 31, 2017 and 2016, respectively.

The following table reconciles Adjusted EBITDA to the reported net income:

**Reconciliation of Adjusted EBITDA to Net Income**

| $ in thousands | August 31, 2017 | August 31, 2016 |
|---|---|---|
| Reported net income/ (loss) | $ 249 | $ (395) |
| Depreciation and amortization | 99 | 95 |
| Stock grant to directors | 35 | 10 |
| Interest | 68 | 96 |
| Adjusted EBITDA | $ 451 | $ (194) |

Adjusted EBITDA does not represent funds available for management's discretionary use and is not intended to represent cash flow from operations. Adjusted EBITDA has limitations and should not be construed as a substitute for net loss or as a better measure of liquidity than cash flows from operating activities, which are determined in accordance with United States generally accepted accounting principles ("GAAP") and therefore Adjusted EBITDA should only be used as supplemental information. Adjusted EBITDA excludes components that are significant in understanding and assessing our results of operations and cash flows. In addition, Adjusted EBITDA in not a term defined by GAAP and as a result, our measure of Adjusted EBITDA might not be comparable to similarly titled measures used by other companies.

However, Adjusted EBITDA is used by management to evaluate, assess and benchmark our performance. We believe understanding the costs directly related to the delivery of our goods and services is beneficial to the management of the Company. Adjusted EBITDA is relevant and useful information, which is often reported and widely used by analysts, investors and other interested parties as a measurement of the delivery of a product or service. Accordingly, we are disclosing this information to permit a more comprehensive analysis of our operating performance, to provide an additional measure of performance and liquidity and to provide additional information with respect to our ability to meet future debt service, capital expenditure and working capital requirements.

Our Adjusted EBITDA financial information is also comparable to net cash provided by operating activities. The table below reconciles Adjusted EBITDA to the GAAP disclosure of net cash provided (used in) operating activities:

| $ in thousands | August 31, 2017 | August 31, 2016 |
|---|---|---|
| Net cash provided (used) by operating activities | $ (264) | $ 342 |
| Interest | 68 | 96 |
| Provision for doubtful accounts | (12) | (12) |
| Patent abandonment | (25) | - |
| Changes in accounts receivable | 22 | (209) |
| Changes in inventories | 138 | 38 |
| Changes in prepaid expenses and other current assets | (61) | (236) |
| Changes in accounts payable | 205 | 110 |
| Changes in customer deposits | 75 | 52 |
| Changes in Accrued expenses and other liabilities | 37 | (419) |
| Changes in accrued compensation | 23 | 13 |
| Changes in other non-current liabilities | 245 | 31 |
| Adjusted EBITDA | $ 451 | $ (194) |

The reconciliation of Adjusted EBITDA to net cash provided by operating our Company should be viewed as supplemental information to our statement of cash flows and not as a substitute.

## 12. Related Party Transactions

Accrued compensation includes accrued unpaid compensation payable to one of the Company's officers (who is a significant shareholder). The obligation is unsecured and bears interest at 6% per annum. Interest accrued on unpaid compensation for the six-month period ending August 31, 2017 and 2016 was $17,456 and $18.801, respectively. The current portion of accrued compensation at August 31, 2017 and 2016 includes $144,960 and $50,000 respectively, of the unpaid officer's compensation payable. The balance due to officer of $406,051 and $568,285 at August 31, 2017 and 2016 is classified as non-current as the officer has agreed to not call the unpaid balance until March 1, 2019

## 13. Subsequent Events

Events subsequent to the six-month period ended August 31, 2017 until the date the financial statements were ready to be released which was January 29, 2018.

On January 16, 2018, the Company filed two lawsuits in connection with the enforcement of its licensing agreement in Mexico. One, in United States District Court, involves the licensee and other, in New York State Supreme Court, involves a former employee of the Company.