Quadlogic Controls Corporation

Financial Statements
Years Ended February 28, 2017 and February 29, 2016

BDO

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Contents

Independent Auditor's Report

To the Board of Directors
Quadlogic Controls Corporation
Long Island City, New York

We have audited the accompanying financial statements of Quadlogic Controls Corporation, which comprise the balance sheets as of February 28, 2017 and February 29, 2016, and the related statements of operations, changes in shareholders' deficit and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Quadlogic Controls Corporation as of February 28, 2017 and February 29, 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

January 29, 2018

Quadlogic Controls Corporation

Balance Sheets

	February 28, 2017	February 29, 2016
Assets		
Current Assets:		
Cash	**$ 128,083**	$ 270,704
Accounts receivable, trade, net of allowance for doubtful accounts of $94,937 and $95,628 in 2017 and 2016	**2,018,112**	2,195,081
Inventories	**1,562,544**	1,481,486
Prepaid expenses and other current assets	**195,245**	407,148
Total Current Assets	**3,903,984**	4,354,419
Property and Equipment, Net	**842,379**	864,724
Other Assets:		
Other assets	**354,437**	397,073
Patent and trademark costs, net of accumulated amortization of $115,993 in 2017 and $90,004 in 2016	**434,298**	460,954
Lease deposits	**191,854**	191,854
Total Other Assets	**980,589**	1,049,881
Total Assets	**$ 5,726,952**	$ 6,269,024
Liabilities and Shareholders' Deficit		
Current Liabilities:		
Current maturities of installment debt	**$ 28,431**	$ 114,127
Debt obligations – preferred shareholders	**-**	163,508
Accounts payable	**1,825,685**	1,671,982
Customer deposits	**189,933**	127,938
Current portion of accrued compensation	**689,084**	568,366
Accrued expenses and other liabilities	**829,648**	590,988
Total Current Liabilities	**3,562,781**	3,236,909
Non-current Liabilities:		
Accrued compensation	**462,023**	590,231
Secured line of credit – borrowings	**610,922**	1,588,378
Other non-current liabilities	**1,165,171**	1,229,220
Total Non-current Liabilities	**2,238,116**	3,407,829
Total Liabilities	**5,800,897**	6,644,738
Commitments		
Shareholders' Deficit:		
Common stock - $0.001 par value; 20,000,000 shares authorized, 11,373,351 and 11,313,351 shares issued and outstanding in 2017 and 2016, respectively	**11,373**	11,313
Additional paid-in capital	**9,499,549**	9,484,609
Accumulated deficit	**(9,584,867)**	(9,871,636)
Total Shareholders' Deficit	**(73,945)**	(375,714)
Total Liabilities and Shareholders' Deficit	**$ 5,726,952**	$ 6,269,024

See accompanying notes to financial statements.

Quadlogic Controls Corporation

Statements of Operations

Year ended	**February 28, 2017**	February 29, 2016
Revenues:		
Meter sales	**$ 7,097,931**	$ 8,343,411
Royalty income	**1,150,000**	-
Billing and technical services	**5,158,872**	4,636,595
Total Revenues	**13,406,803**	12,980,006
Cost of Goods Sold:		
Cost of meters sold	**4,670,686**	5,698,654
Cost of billing and technical services	**2,894,089**	2,827,162
Total Cost of Goods Sold	**7,564,775**	8,525,816
Gross Profit	**5,842,028**	4,454,190
Operating Expenses:		
Selling	**1,525,741**	1,442,770
Research and development	**1,519,604**	1,189,545
General and administrative	**2,308,193**	2,027,958
Total Operating Expenses	**5,353,538**	4,660,273
Operating Income (Loss)	**488,490**	(206,083)
Other Expense:		
Interest expense	**(171,584)**	(219,850)
Other expense, net	**(30,137)**	(29,979)
Total Other Expense	**(201,721)**	(249,829)
Net Income (Loss)	**$ 286,769**	$ (455,912)

See accompanying notes to financial statements.

Quadlogic Controls Corporation

Statements of Changes in Shareholders' Equity (Deficit)

Years ended February 28, 2017 and February 29, 2016

	Common Stock		Additional		
	Number of Shares	Par Value	Paid-in Capital	Accumulated Deficit	Total
Balance, March 1, 2015	11,193,351	$11,193	$9,460,729	$(9,415,724)	**$ 56,198**
Stock granted to directors	120,000	120	23,880	-	**24,000**
Net loss	-	-	-	(455,912)	**(455,912)**
Balance, February 29, 2016	11,313,351	11,313	9,484,609	(9,871,636)	**(375,714)**
Stock granted to directors	60,000	60	14,940	-	**15,000**
Net income	-	-	-	286,769	**286,769**
Balance, February 28, 2017	**11,373,351**	**$11,373**	**$9,499,549**	**$(9,584,867)**	**$ (73,945)**

See accompanying notes to financial statements.

Quadlogic Controls Corporation

Statements of Cash Flows

Year ended	**February 28, 2017**	February 29, 2016
Cash Flows From Operating Activities:		
Net income (loss)	**$ 286,769**	$(455,912)
Adjustment to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	**207,079**	178,733
Provision for doubtful accounts	**1,388**	9,522
Stock-based compensation	**15,000**	24,000
Write-off patents	**10,449**	-
Changes in assets and liabilities:		
Accounts receivable	**175,581**	(73,372)
Inventories	**(38,422)**	749,520
Prepaid expenses and other current assets	**240,334**	28,626
Accounts payable	**153,703**	(251,141)
Customer deposits	**61,995**	52,238
Accrued expenses and other liabilities	**238,660**	53,624
Accrued compensation	**(7,490)**	(7,670)
Other non-current liabilities	**(64,049)**	(64,050)
Net Cash Provided By Operating Activities	**1,280,997**	244,118
Cash Flows From Investing Activities:		
Purchase of property and equipment	**(158,745)**	(112,973)
Patent acquisition costs	**(9,782)**	(65,863)
Net Cash Used In Investing Activities	**(168,527)**	(178,836)
Cash Flows From Financing Activities:		
Principal payments on debt	**(277,635)**	(205,218)
Borrowing from line of credit	**13,458,912**	13,442,052
Repayments of line of credit	**(14,436,368)**	(13,120,660)
Net Cash (Used In) Provided By Financing Activities	**(1,255,091)**	116,174
Net (Decrease) Increase In Cash	**(142,621)**	181,456
Cash, Beginning of Year	**270,704**	89,248
Cash, End of Year	**$ 128,083**	$ 270,704
Supplemental Disclosure of Cash Flow Information:		
Interest paid	**$ 305,929**	$ 330,733

Supplemental Disclosures of Noncash Investing and Financing Activities:

During the year ended February 28, 2017, prepaid insurance amounting to $28,431 was financed by installment notes in 2017.

During the year ended February 29, 2016, prepaid insurance amounting to $53,521 was financed by installment notes in 2016.

See accompanying notes to financial statements.

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.

(a) 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 "smart" metering systems, 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 the Company's Energy Guard systems under licensing agreements. The Company's revenues for the fiscal years ended February 28, 2017 and February 29, 2016 were generated from sales to foreign customers 30.9% and 40.1%, respectively. Canadian sales represented approximately 30.3% and 30.5% and other foreign sales represented 0.5% and 9.5% of total revenues for the fiscal years ended February 28, 2017 and February 29, 2016. In addition, the Company has recorded royalty income from Mexico of $1,150,000 as of February 28, 2017. The Company's customers include real estate development and construction companies, owners and operators of multi-tenant commercial and residential buildings, distributors, 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.

(b) 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.

(c) 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.

(d) Revenue Recognition

The Company recognizes revenue from the sale of electric metering equipment at the time of shipment to the customer. Revenues from meter read and bill services, and from repair and technical services are recognized at the time the services are rendered. The Company has entered into certain arrangements with a customer to license technology. The customer is obligated to pay royalties to the Company when the product is shipped to the end user.

(e) Fair Value of Financial Instruments

The Company follows the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, "Fair Value Measurement," 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 fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under ASC 820 are described as follows:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 - Inputs that are unobservable for the asset or liability.

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.

(f) Inventories

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

(g) 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 as incurred, 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.

(h) Patents

The Company owns various patents of technology concerning its electronic metering systems and processes. The costs associated with the acquisition of patents, and the costs of registering the patents, are capitalized and amortized on the straight-line basis over their remaining lives. Amortization expense for the fiscal years ended February 28, 2017 and February 29, 2016 amounted to approximately $24,000 and $20,000, respectively.

(i) Trademarks

The Company owns two trademarks in various countries. The cost of registering the trademarks are capitalized and amortized on the straight-line basis over the remaining lives. Amortization expense for the fiscal years ended February 28, 2017 and February 29, 2016 amounted to approximately $2,300 for each year.

(j) Research and Development

Research and development costs are expensed as incurred.

(k) 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 $87,000 and $143,000 for the fiscal years ended February 28, 2017 and February 29, 2016, respectively. All shipping and handling costs billed to customers are recorded in revenue.

(l) 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 (see Note 11).

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.

For the fiscal years ended February 28, 2017 and February 29, 2016, revenues derived from two customers amounted to $2,610,496 or 21.3% and $2,493,453 or 19.2% of total revenues, respectively. For the same periods, accounts receivable from three customers accounted for 33.3% and 43.1% of total receivables, of which one customer for the fiscal year ended February 28, 2017 and February 29, 2016 was 22.2% and 27.4%, respectively.

4. Inventories

Inventories consisted of the following as of February 28, 2017 and February 29, 2016:

	February 28, 2017	February 29, 2016
Raw materials	**$ 435,541**	$ 252,662
Work-in-progress	**698,164**	642,290
Finished goods	**428,839**	586,534
Total inventories	**$1,562,544**	$1,481,486

5. Property and Equipment

Property and equipment consisted of the following as of February 28, 2017 and February 29, 2016:

	February 28, 2017	February 29, 2016
Machinery and equipment	**$ 1,248,005**	$ 1,116,151
Office furniture and equipment	**416,140**	414,617
Leasehold improvements	**1,574,147**	1,574,147
Computer equipment and software costs	**181,177**	181,177
Tools, dies and molds	**263,110**	238,950
	3,682,579	3,525,042
Less: Accumulated depreciation and amortization	**(2,840,200)**	(2,660,318)
Property and equipment, net	**$ 842,379**	$ 864,724

Depreciation and amortization expense for the fiscal years ended February 28, 2017 and February 29, 2016 amounted to approximately $181,000 and $156,000, respectively.

6. Intangible Assets

The components and weighted average amortization period of intangible assets as of February 28, 2017 and February 29, 2016 are as follows:

	February 28, 2017	February 29, 2016	Weighted Average Amortization Period
Patents	**$ 515,106**	$517,348	18 years
Trademarks	**35,185**	33,610	10 years
Gross intangibles	**550,291**	550,958	
Less: Accumulated amortization (patents)	**(103,936)**	(80,296)	
Less: Accumulated amortization (trademarks)	**(12,057)**	(9,708)	
Intangibles, net of amortization	**$ 434,298**	$460,954	

The aggregate amortization expense related to intangible assets for the next five years is as follows:

Year ending February 28,	
2018	$ 30,571
2019	30,571
2020	30,571
2021	30,571
2022	30,571
2023 and thereafter	281,443
Total	$434,298

7. 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 and 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 the 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 February 28, 2017 and February 29, 2016 was approximately $611,000 and $1,588,000, respectively.

8. Installment Debt

Installment debt consists of the following:

	February 28, 2017	February 29, 2016
Unsecured business credit card line with Wells Fargo bearing interest for fiscal years ended 2017 and 2016 of 14.50%. Total credit line is $88,500 with monthly payments of $8,000 for both years.	**$ -**	$ 60,606
Unsecured loan payables to Bank Direct Capital Finance, which bear interest at 5.95% and 6.2% per annum for directors and officers, and errors and omissions insurance effective December 27, 2015 and December 18, 2015, respectively. The loans finance corporate insurance premiums. The loans required down payments of $11,000 and $11,846 with principal balance due of $33,000 and $34,103, and (9) monthly payments of $3,758.17 and $3,887.73. For fiscal year ended February 28, 2017, interest was 5.45%. Total down payment was $22,890, with principal balance due of $68,671 and (9) monthly payments of $7,804.40.	**28,431**	53,521
Total	**28,431**	114,127
Less: Current portion	**28,431**	114,127
Long-term portion	**$ -**	$ -

9. 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 any time in one or more series that will have voting rights, mandatory interest, 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 is 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 Company 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. The principal balance due for the years ended February 28, 2017 and February 29, 2016 was paid off, and accrued dividends was $-0- and $163,508, respectively.

10. Commitments

In fiscal year 2007, the Company entered into a lease agreement for new facilities. The lease commenced July 1, 2007 and expires December 31, 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 new 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 $854,000 and $842,000 for the fiscal years ended February 28, 2017 and February 29, 2016, respectively.

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

Year ending February 28,	
2018	$ 885,082
2019	943,916
2020	943,916
2021	943,916
2022	943,916
Thereafter	314,639
	$4,975,385

Concentration of Vendors

The Company relies on a limited number of outside vendors who currently supply necessary components for the manufacture of meters. The Company is subject to the risk that it may not be able to obtain sufficient quantities or reasonable prices. The Company purchased inventory and services from its three largest vendors of $909,523 and $1,219,356 for the years ended February 28, 2017 and February 29, 2016, respectively. This represents 17.9% and 15.3% of the total purchases for years ended February 28, 2017 and February 29, 2016, respectively.

11. Income Taxes

Deferred tax assets arise from net operating loss carryforwards and from items that are currently expensed for financial statement purposes but are not currently deductible for income tax purposes. The components of the deferred tax asset are as follows:

	February 28, 2017	February 29, 2016
Current deferred tax assets:		
Accrued expenses	**$ 245,018**	$ 418,552
Deferred rent	**346,855**	370,443
Other reserves	**126,480**	126,172
Tax capitalization of certain inventory costs	**184,719**	167,687
Royalty income	**1,700,000**	-
Total current deferred tax assets	**2,603,072**	1,082,854

	February 28, 2017	February 29, 2016
Long-term deferred tax assets:		
Net operating loss carryforwards	**$ 389,207**	$ 924,592
R&D credit carryforwards	**922,552**	704,115
REAP credit carryforward	**905,288**	722,816
Total long-term deferred tax assets	**2,217,047**	2,351,523
Long-term deferred tax liability:		
Depreciation	**(37,426)**	(4,122)
Net long-term deferred tax assets	**2,179,621**	2,347,401
Total deferred tax assets	**4,782,693**	3,430,255
Less: Valuation allowance	**(4,782,693)**	(3,430,255)
Net deferred tax asset	**$ -**	$ -

The Company has established a full valuation allowance against its deferred tax assets due to the uncertainty surrounding realization of such assets.

As of February 28, 2017, the Company had federal, state and city net operating loss carryforwards of approximately $4,782,693, available to reduce any future federal taxable income. The federal net operating loss carryforwards begin expiring in February 28, 2030.

The Company follows 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.

Open tax years for Federal income taxes are fiscal years ended 2017, 2016, 2015 and 2014. Open tax years for state income taxes range between 3-4 years or for fiscal years ended 2013 to 2017.

The Company’s policy is to recognize interest and penalties relating to uncertain tax positions in income tax expense.

12. Employee Benefit Plan

The Company maintains a 401(k) plan. The plan covers all full-time employees with a minimum of three months of service. The plan includes a discretionary match at the Company’s option. However no match was funded by the Company for the fiscal years ended February 28, 2017 and February 29, 2016.

13. Employee Stock Option Plan and Warrants

The Company recognized no compensation expense arising from stock options issued to employees for fiscal years ended 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 fiscal years ended February 28, 2017 and February 29, 2016 is as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Expiration Date of Options
Outstanding February 28, 2015	40,000	$1.25	May 18, 2016 – January 8, 2018
Forfeited	(20,000)		
Outstanding February 29, 2016	20,000	1.25	May 18, 2016
Forfeited	(20,000)		
Outstanding February 28, 2017	-	$ -	

As of both February 28, 2017 and February 29, 2016, 20,000 of the employee options were vested.

For the fiscal year ended February 28, 2011, upon joining the Board, a director was awarded an option to purchase 90,000 shares of the Company's common stock at an exercise price of $1.25 per share. The option vests ratably over two years, with one-third vested upon issuance, one-third after one year, and the remainder after two years. The Company also compensates each independent director $12,500 annually, payable quarterly, and each new independent director is required to purchase a minimum of $75,000 of Company stock. In fiscal year ended February 2012, the Company amended this to compensate each independent director at $40,000 annually and grant each independent director 30,000 shares of the Company's common stock which vest immediately. There was $15,000 and $24,000 of compensation expense arising from stock granted to two independent directors in fiscal 2017 and 2016, respectively.

As of February 28, 2017 and February 29, 2016, there were no outstanding directors 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 years ended February 28, 2017 and February 29, 2016.

There were no warrants issued for fiscal years ended February 28, 2017 and February 29, 2016.

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.

14. Related Party Transactions

Accrued compensation includes accrued unpaid compensation payable to one of the Company's officers (who is also a significant shareholder). The obligation is unsecured and bears interest at 6% per annum. Interest accrued on unpaid compensation for the fiscal years ended February 28, 2017 and February 29, 2016 was $37,072 and $37,857, respectively. The current portion of accrued compensation at February 28, 2017 and February 29, 2016 includes $148,533 and $50,000, respectively, of the unpaid officer's compensation payable. The balance due to officer of $462,023 and $575,485 at February 28, 2017 and February 29, 2016 is classified as non-current as the officer has agreed to not call the unpaid balance until March 1, 2019.

15. Subsequent Events

Events subsequent to the year ended February 28, 2017 were evaluated until the date the financial statements were ready to be issued which was January 29, 2018.

On May 12, 2017, the Company received notice from a group of shareholders demanding that a special meeting of shareholders of the Company be held for the election of directors on July 11, 2017. The Board of Directors contested the validity of the notice and scheduled an annual meeting of shareholders to be held on July 10, 2017. On July 26, 2017, the Company and the shareholder group entered into an agreement that provided for the annual meeting to be held on August 8, 2017, a slate of five nominees for election to the Board of Directors, and formation of a special committee of the Board of Directors to explore strategies to increase shareholder value. On August 3, 2017, Sayre Swarztrauber resigned as CEO of the Company effective August 18, 2017. At the annual meeting on August 8, 2017, the five nominees were elected, consisting of Yona Yehudai, Israel Averbach, Doron Shafrir, Peter Fagan and Walter Fiederowicz.

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 the other, in New York State Supreme Court, involves a former employee of the Company.