

BOND LABORATORIES, INC.  
Form 10-Q  
August 14, 2013

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT

For the transition period from N/A to N/A

Commission File No. 333-137170

BOND LABORATORIES, INC.  
(Name of small business issuer as specified in its charter)

Nevada  
(State or other jurisdiction of  
incorporation)

20-3464383  
(IRS Employer Identification No.)

4509 S. 143rd Street, Suite 1, Omaha, NE 68137  
(Address of principal executive offices)

(402) 884-1894  
(Issuer's telephone number)

Indicate by check mark whether the Registrant (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days:

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer  Accelerated filer   
Non-Accelerated filer  Small reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 9, 2013
Common stock, \$0.01 par value	77,753,482

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BOND LABORATORIES, INC.  
INDEX TO FORM 10-Q FILING  
FOR THE QUARTER ENDED JUNE 30, 2013

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

The accompanying reviewed interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q. Therefore, they do not include all information and footnotes necessary for a complete presentation of financial position, results of operations, cash flows, and stockholders' equity in conformity with generally accepted accounting principles. Except as disclosed herein, there has been no material change in the information disclosed in the notes to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations and financial position have been included and all such adjustments are of a normal recurring nature. Operating results for the three and six months ended June 30, 2013 are not necessarily indicative of the results that can be expected for the year ending December 31, 2013.

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BOND LABORATORIES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS:	(Unaudited) June 30, 2013	December 31, 2012
<b>CURRENT ASSETS</b>		
Cash	\$ 2,364,244	\$ 936,911
Accounts receivable, net	1,803,019	969,111
Inventory	2,978,544	3,684,991
Deferred tax asset	689,000	689,000
Prepaid expenses and other current assets	115,307	117,059
Total current assets	7,950,114	6,397,072
<b>PROPERTY AND EQUIPMENT, net</b>		
	11,690	18,577
Intangibles assets, net	1,146,992	1,256,866
Long-term investments	100,000	-
Deposits	3,048	3,048
<b>TOTAL ASSETS</b>	<b>\$ 9,211,844</b>	<b>\$ 7,675,563</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 1,317,348	\$ 1,209,380
Accrued expenses and other liabilities	202,805	191,787
Income tax payable	42,000	32,000
Line of Credit	437,089	437,089
Total current liabilities	1,999,242	1,870,256
<b>TOTAL LIABILITIES</b>	<b>1,999,242</b>	<b>1,870,256</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	<b>-</b>	<b>-</b>
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock series B, \$.01 par value, 1,000 shares authorized; 103.3 and 103.3 issued and outstanding of its 10% Perpetual Preferred with a Stated Value of \$10,000 per share with a cumulative dividend of \$847,685 and \$757,063 as of June 30, 2013 and December 31, 2012, respectively	847,686	757,064
Preferred stock series C, \$.01 par value, 500 shares authorized; 125 and 125 issued and outstanding of its convertible preferred stock with a Stated Value of \$10,000 per share with a \$0.25 conversion price and a cumulative dividend of \$76,900 and \$50,755 as of June 30, 2013 and December 31, 2012, respectively	76,902	50,756
Common stock, \$.01 par value, 150,000,000 shares authorized; 77,753,482 and 74,753,482 issued and outstanding as of June 30, 2013 and December 31, 2012, respectively	777,535	747,535

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Additional paid-in capital	27,067,578	26,864,676
Accumulated deficit	(21,557,099 )	(22,614,724 )
Total stockholders' equity	\$ 7,212,602	\$ 5,805,307
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 9,211,844</b>	<b>\$ 7,675,563</b>

The accompanying notes are an integral part of these condensed consolidated financial statements.

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BOND LABORATORIES, INC.  
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS  
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 AND 2012

	(Unaudited)		(Unaudited)	
	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2013	2012	2013	2012
Revenue	\$5,055,035	\$5,175,255	\$11,116,176	\$10,131,152
Total	5,055,034	5,175,255	11,116,176	10,131,152
Cost of Goods Sold	3,189,188	3,200,293	6,980,421	6,408,550
Gross Profit	1,865,847	1,974,962	4,135,755	3,722,602
<b>OPERATING EXPENSES:</b>				
General and administrative	668,234	597,831	1,665,977	1,119,137
Selling and marketing	624,762	539,101	1,234,851	982,526
Depreciation and amortization	57,971	60,740	116,762	123,271
Total operating expenses	1,350,967	1,197,672	3,017,590	2,224,934
OPERATING INCOME (LOSS)	514,880	777,290	1,118,165	1,497,668
<b>OTHER (INCOME) AND EXPENSES</b>				
Interest expense	3,669	4,340	8,040	9,312
Other income	-	-	-	(4,500 )
Loss on the sale of assets	-	-	-	-
Total other (income) expense	3,669	4,340	8,040	4,812
INCOME TAXES (BENEFIT)	41,000	-	52,500	-
NET INCOME (LOSS)	\$470,211	\$772,950	\$1,057,625	\$1,492,856
<b>NET INCOME (LOSS) PER SHARE:</b>				
Basic	\$0.01	\$0.01	\$0.01	\$0.02
Diluted	\$0.01	\$0.01	\$0.01	\$0.02
Basic	77,753,482	74,439,559	77,136,816	74,366,459
Diluted	90,547,399	95,557,030	90,329,066	95,184,485

The accompanying notes are an integral part of these condensed consolidated financial statements.



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BOND LABORATORIES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2012

	(Unaudited)	
	2013	2012
Net income	\$ 1,057,625	\$ 1,492,856
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	116,762	123,271
Common stock and options issued for services	349,670	50,053
Changes in operating assets and liabilities:		
Accounts receivables	(833,908 )	(1,061,411 )
Inventory	706,447	(962,119 )
Prepaid expenses	1,752	(26,718 )
Deposits	-	3,783
Accounts payable	107,968	614,421
Accrued liabilities	11,018	16,230
Income tax payable	10,000	-
Net cash provided by / (used in) operating activities	1,527,334	250,366
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	-	-
Long-term investment	(100,000 )	-
Proceeds from sale of assets	-	-
Net cash provided by / (used in) investing activities	(100,000 )	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments of note payable	-	-
Net cash provided by / (used in) financing activities	-	-
<b>INCREASE (DECREASE) IN CASH</b>	<b>1,427,334</b>	<b>250,366</b>
CASH, BEGINNING OF PERIOD	936,911	354,929
CASH, END OF PERIOD	\$ 2,364,244	\$ 605,295
<b>Supplemental disclosure for operating activities</b>		
Cash paid for interest	\$ 8,040	\$ 9,312
Cash paid for income tax	\$ 16,000	\$ -
<b>Supplemental disclosure for non cash investing and financing activities</b>		
Common shares and options issued for services	\$ 349,670	\$ 50,053
Common shares issued for debt	\$ -	\$ -

The accompanying notes are an integral part of these condensed consolidated financial statements.

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BOND LABORATORIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2012

NOTE 1 - DESCRIPTION OF BUSINESS

Summary

Bond Laboratories, Inc. (the “Company”) is a national provider of innovative and proprietary nutritional supplements for health conscious consumers. The Company produces and markets its products through NDS Nutrition Products, Inc., a Florida corporation (“NDS”). NDS manufactures and distributes a full line of nutritional supplements to support healthy living predominantly through franchisees of General Nutrition Centers, Inc. (“GNC”) located throughout the United States.

The Company was incorporated in the State of Nevada on July 26, 2005. In October 2008, the Company acquired the assets of NDS Nutritional Products, Inc., a Nebraska corporation, and moved those assets into its wholly owned subsidiary, NDS.

Bond Laboratories is headquartered in Omaha, Nebraska. For more information on the Company, please go to <http://www.bond-labs.com>. The Company’s common stock currently trades under the symbol BNLB on the OTCQB market.

NOTE 2 - BASIS OF PRESENTATION

Interim Financial Statements

The accompanying interim condensed unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In our opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation are included. Operating results for the three and six-month period ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. While management of the Company believes the disclosures presented herein are adequate and not misleading, these interim condensed consolidated financial statements should be read in conjunction with the audited condensed consolidated financial statements and the footnotes thereto for the fiscal year ended December 31, 2012 as filed with the Securities and Exchange Commission as an exhibit to our Annual Report on Form 10-K.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company prepares its financial statements in accordance with accounting principles generally accepted in the United States of America. Significant accounting policies are as follows:

Principle of Consolidation

The consolidated financial statements include the accounts of Bond Laboratories, Inc. and NDS Nutrition Products, Inc. Intercompany accounts and transactions have been eliminated in the consolidated condensed financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities, (ii) the disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and (iii) the reported amount of net sales and expenses recognized during the periods presented. Adjustments made with respect to the use of estimates often relate to improved information not previously available. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of financial statements; accordingly, actual results could differ from these estimates.

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These estimates and assumptions also affect the reported amounts of revenues, costs and expenses during the reporting period. Management evaluates these estimates and assumptions on a regular basis. Actual results could differ from those estimates.

### Revenue Recognition

Revenue is derived from product sales. The Company recognizes revenue from product sales in accordance with Accounting Standards Codification ("ASC") Topic 605 "Revenue Recognition in Financial Statements" which assesses revenue upon: (i) the time customers are invoiced at shipping point provided title and risk of loss has passed to the customer, (ii) evidence of an arrangement exists, (iii) fees are contractually fixed or determinable, (iv) collection is reasonably assured through historical collection results and regular credit evaluations, and (v) there are no uncertainties regarding customer acceptance.

### Accounts Receivable

All of the Company's accounts receivable balance is related to trade receivables. Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in its existing accounts receivable. The Company will maintain allowances for doubtful accounts, estimating losses resulting from the inability of its customers to make required payments for products. Accounts with known financial issues are first reviewed and specific estimates are recorded. The remaining accounts receivable balances are then grouped in categories by the amount of days the balance is past due, and the estimated loss is calculated as a percentage of the total category based upon past history. Account balances are charged off against the allowance when it is probable the receivable will not be recovered. The Company recorded \$228 related to bad debt and doubtful accounts during the quarter ended June 30, 2013.

### Allowance for Doubtful Accounts

The determination of collectability of the Company's accounts receivable requires management to make frequent judgments and estimates in order to determine the appropriate amount of allowance needed for doubtful accounts. The Company's allowance for doubtful accounts is estimated to cover the risk of loss related to accounts receivable. This allowance is maintained at a level we consider appropriate based on factors that affect collectability. These factors include historical trends of write-offs, recoveries and credit losses, the careful monitoring of customer credit quality, and projected economic and market conditions. Different assumptions or changes in economic circumstances could result in changes to the allowance.

### Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At June 30, 2013, cash and cash equivalents include cash on hand and cash in the bank.

### Inventory

The Company's inventory is carried at the lower of cost or net realizable value using the first-in, first-out ("FIFO") method. The Company evaluates the need to record adjustments for inventory on a regular basis. Company policy is to evaluate all inventories including raw material and finished goods for all of its product offerings across all of the Company's operating subsidiaries. At June 30, 2013 and December 31, 2012, the value of the Company's inventory was \$2,978,544 and \$3,684,991, respectively.

### Property and Equipment

Property and equipment is recorded at cost and depreciated over the estimated useful lives of the assets using the straight-line method. When items are retired or otherwise disposed of, income is charged or credited for the difference between net book value and proceeds realized. Ordinary maintenance and repairs are charged to expense as incurred, and replacements and betterments are capitalized.

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The range of estimated useful lives used to calculate depreciation for principal items of property and equipment are as follows:

Asset Category	Depreciation/ Amortization Period
Furniture and fixtures	3 Years
Office equipment	3 Years
Leasehold improvements	5 Years

The Company adopted Statement of Financial Accounting Standard (“FASB”) ASC Topic 350 Goodwill and Other Intangible Assets. In accordance with ASC Topic 350, goodwill, which represents the excess of the purchase price and related costs over the value assigned to net tangible and identifiable intangible assets of businesses acquired and accounted for under the purchase method, acquired in business combinations is assigned to reporting units that are expected to benefit from the synergies of the combination as of the acquisition date. Under this standard, goodwill and intangibles with indefinite useful lives are no longer amortized. The Company assesses goodwill and indefinite-lived intangible assets for impairment annually during the fourth quarter, or more frequently if events and circumstances indicate impairment may have occurred in accordance with ASC Topic 350. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, the Company records an impairment loss equal to the difference. ASC Topic 350 also requires that the fair value of indefinite-lived purchased intangible assets be estimated and compared to the carrying value. The Company recognizes an impairment loss when the estimated fair value of the indefinite-lived purchased intangible assets is less than the carrying value.

#### Impairment of Long-Lived Assets

In accordance with ASC Topic 3605, “Long-Lived Assets,” such as property, plants, equipment, and purchased intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Goodwill and other intangible assets are tested for impairment. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount in which the carrying amount of the asset exceeds the fair value of the asset. There were no events or changes in circumstances that necessitated an impairment of long-lived assets.

#### Income Taxes

Deferred income taxes are provided based on the provisions of ASC Topic 740, “Accounting for Income Taxes,” to reflect the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

The Company adopted the provisions of FASB Interpretation No. 48 – “Accounting For Uncertainty In Income Taxes” – an interpretation of ASC Topic 740 (“FIN 48”). FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not, that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount, which is more than 50% likely of being realized upon ultimate settlement. The Company considers many factors when evaluating and estimating the Company's tax positions and tax benefits, which may require periodic adjustments. At June 30, 2013, the Company did not record any liabilities for uncertain tax positions.

Concentration of Credit Risk

The Company maintains its operating cash balances at a large, commercial bank offices across the country. The Federal Depository Insurance Corporation (“FDIC”) insures accounts up to \$250,000.

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## Earnings Per Share

Basic income (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share reflects the potential dilution that could occur if stock options, warrants, and other commitments to issue common stock were exercised or equity awards vest resulting in the issuance of common stock that could share in the earnings of the Company. In the event of a loss, diluted loss per share is the same as basic loss per share, because of the effect of the additional securities, a result of the net loss would be anti-dilutive.

## Fair Value of Financial Instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties other than in a forced sale or liquidation.

The carrying amounts of the Company's financial instruments, including cash, accounts payable and accrued liabilities, income tax payable and related party payable, if any, approximate fair value.

## Recent Accounting Pronouncements

None.

## NOTE 4 – INVENTORIES

The Company's inventories as of June 30, 2013 and December 31, 2012 are as follows:

	June 30, 2013	December 31, 2012
Finished goods	\$2,140,771	\$ 2,669,358
Components	837,773	1,015,633
<b>Total</b>	<b>\$2,978,544</b>	<b>\$ 3,684,991</b>

## NOTE 5 - PROPERTY AND EQUIPMENT

The Company's fixed assets as of June 30, 2013 and December 31, 2012 are as follows:

	June 30, 2013	December 31, 2012
Equipment	\$285,753	\$ 285,753
Accumulated depreciation	(274,063)	(267,176)
<b>Total</b>	<b>\$11,690</b>	<b>\$ 18,577</b>

Depreciation and amortization expense for the six months ended June 30, 2013 was \$116,762 as compared to \$123,271 for the six month period ended June 30, 2012.

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## NOTE 6 – NOTE PAYABLES

Notes payable consist of the following as of June 30, 2013 and December 31, 2012:

	June 30, 2013	December 31, 2012
Revolving line of credit of \$3,000,000 from US Bank, dated April 9, 2009, as amended July 15, 2010, May 25, 2011, August 22, 2012, and April 29, 2013 at an interest rate of 3.0% plus the one-month LIBOR quoted by US Bank from Reuters Screen LIBOR. The line of credit matures May 15, 2014 and is secured by 80% of the eligible receivables and 50% of the eligible inventory (such inventory amount not to exceed 50% of the borrowing base) of NDS Nutrition Products, Inc. The Company pays interest only on this line of credit.	\$ 437,089	\$ 437,089
Total of notes payable and advances	437,089	437,089
Less current portion	(437,089)	(437,089)
Long-term portion	\$ -	\$ -

## NOTE 7 - COMMITMENTS AND CONTINGENCIES

The Company does not have a commitment and contingency liability associated with any third party consulting agreements.

Effective August 3, 2012, without admitting any wrongdoing or liability, the Company settled all pending litigation with Eric Schick, the Company's former President, related to allegations that the Company had committed certain unlawful employment practices (the "Schick Litigation"). The settlement provided for certain payments to Mr. Schick totaling \$360,000, of which \$180,000 was paid as a lump sum and \$180,000 was paid over a twelve-month period in equal monthly installments of \$15,000 each, which payments ended in July 2013. As a result of the settlement of the Schick Litigation, all claims by Mr. Schick were dismissed, with prejudice. The Company had previously established a reserve of \$250,000 in anticipation of the costs and expenses associated with defending the Schick Litigation, and believes that the settlement allows the Company to focus on the execution of its business plan without the costs, expenses and uncertainty of continued litigation.

## NOTE 8 - RELATED PARTY TRANSACTIONS

The Company paid Burnham Hill Advisors LLC ("BHA") \$39,500 during the quarter ended June 30, 2013 for advisory and consulting fees pursuant to a Consulting Agreement for Services ("Agreement") by and between the Company and BHA, dated August 25, 2012, which agreement was terminated on May 1, 2013 in accordance with its terms. Mr. Abrams, the Company's Chief Financial Officer, is a partner in Burnham Hill Capital Group LLC ("BHCG"), of which BHA is a 100% wholly owned entity. In addition, Mr. Adelman, a shareholder that beneficially owns in excess of 5% of the Company's common stock, is a partner in BHCG. The fees paid to BHA under the terms of the Agreement, which were \$13,500 per month up to the date of Mr. Abrams became the Company's full-time Chief Financial Officer, included the services provided by Mr. Abrams to the Company in his capacity as its Interim Chief Financial Officer. Additionally, during the period in which the Agreement was in effect, Mr. Abrams received \$1,500 per month directly from the Company in consideration for his services provided to the Company.



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## NOTE 9 - NET INCOME / (LOSS) PER SHARE

Basic net income per share is calculated by dividing the net income attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted net income per share also includes the weighted average number of outstanding warrants and options in the denominator, as well as the weighted average number of shares of Series C Convertible Preferred Stock on an as converted basis. In the event of a loss, the diluted loss per share is the same as basic loss per share. The weighted average number of diluted shares of common stock outstanding for the three months ended June 30, 2013 included 77,753,482 shares of common stock, 5,000,000 shares of common stock issuable upon the conversion of the Series C Convertible Preferred Stock at \$0.25 per share, 5,993,917 shares of common stock issuable upon the exercise of outstanding common stock purchase warrants, and 1,800,000 shares of common stock issuable upon the exercise of outstanding options to purchase common stock. The following table represents the computation of basic and diluted income and (losses) per share for the three months ended June 30, 2013 and 2012.

	June 30, 2013	June 30, 2012
Income / (Losses) available for common shareholders	\$470,211	\$772,950
Basic weighted average common shares outstanding	77,753,482	74,439,559
Basic income / (loss) per share	\$0.01	\$0.01
Diluted weighted average common shares outstanding	90,547,399	95,557,030
Diluted income / (loss) per share	\$0.01	\$0.01

Net income / (loss) per share is based upon the weighted average shares of common stock outstanding.

## NOTE 10 - EQUITY

## Common and Preferred Stock

The Company is authorized to issue 150,000,000 shares of common stock, \$0.01 par value, of which 77,753,482 common shares were issued and outstanding as of June 30, 2013. The Company is authorized to issue 10,000,000 shares of Series A Convertible Preferred Stock, \$0.01 par value, none of which were issued and outstanding as of June 30, 2013. The Company is authorized to issue 1,000 shares of its 10% Cumulative Perpetual Series B Preferred Stock, \$0.01 par value, of which 103.3 were issued and outstanding as of June 30, 2013. The Company recorded an accumulated dividend of \$847,686 as of June 30, 2013, which was recorded against the par value of the 10% Cumulative Perpetual Series B Preferred Stock and Additional Paid in Capital. The outstanding 10% Cumulative Perpetual Series B Preferred Stock has a liquidation preference of \$10,000 per share. The Company is authorized to issue 500 shares of its Series C Convertible Preferred Stock, par value \$0.01, of which 125 shares were issued and outstanding as of June 30, 2013. The Company recorded an accumulated dividend of \$76,900 as of June 30, 2013, which was recorded against the par value of the Series C Convertible Preferred Stock and Additional Paid in Capital. The Series C Convertible Preferred Stock is convertible at \$0.25 per share and has a liquidation preference of \$10,000 per share.

## Options

As of June 30, 2013, 1,800,000 options to purchase common stock of the Company were issued and outstanding, 600,000 of which had an exercise price equal to \$0.10 per share, and 1,200,000 of which had an exercise price equal

to \$0.09 per share.

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## Warrants

The Company values all warrants using the Black-Scholes option-pricing model. Critical assumptions for the Black-Scholes option-pricing model include the market value of the stock price at the time of issuance, the risk-free interest rate corresponding to the term of the warrant, the volatility of the Company's stock price, dividend yield on the common stock, as well as the exercise price and term of the warrant. The Black Scholes option-pricing model was the best determinable value of the warrants that the Company "knew up front" when issuing the warrants in accordance with Topic 505. Other than as expressly noted below, the warrants are not subject to any form of vesting schedule and, therefore, are exercisable by the holders anytime at their discretion during the life of the warrant. No discounts were applied to the valuation determined by the Black-Scholes option-pricing model; provided, however, that in determining volatility the Company utilized the lesser of the 90-day volatility as reported by Bloomberg or other such nationally recognized provider of financial markets data and 40.0%.

As of June 30, 2013, 5,993,917 warrants to purchase common stock of the Company were issued and outstanding, additional information about which is included in the following table:

Issued	Exercise Price	Issuance Date	Expiration Date	Vesting
175,864	\$ 0.770	12/31/09	12/31/14	No
100,000	\$ 0.700	12/31/09	12/31/14	No
375,000	\$ 0.500	08/20/09		