IMRICOR MEDICAL SYSTEMS INC.

Minneapolis, Minnesota

Including Independent Auditors' Report

As of and for the years December 31, 2018 and 2017

IMRICOR MEDICAL SYSTEMS INC.

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INDEPENDENT AUDITORS' REPORT

Stockholders and Board of Directors
Imricor Medical Systems Inc.
Minneapolis, Minnesota

We have audited the accompanying financial statements of Imricor Medical Systems Inc., which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of operations, stockholders' 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.

Auditors' 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 audits 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 auditors' 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 Imricor Medical Systems Inc. as of December 31, 2018 and 2017 and the results of its operations and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Change in Accounting Principle

As discussed in Notes 1 and 2 to the financial statements, effective January 1, 2018, the company adopted Accounting Standard Codification Topic 606, *Revenue from Contracts with Customers* on a modified retrospective basis.

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming the company will continue as a going concern. As discussed in Note 3 to the financial statements, the company's accumulated deficit and need for additional working capital raise substantial doubt about its ability to continue as a going concern. Management's plans with regard to these matters are also described in Note 3 to the financial statements. The financial statements do not include any adjustments that might result from this uncertainty. Our opinion is not modified with respect to that matter.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
February 19, 2019

IMRICOR MEDICAL SYSTEMS INC.
BALANCE SHEETS
December 31, 2018 and 2017

ASSETS

	2018	2017
CURRENT ASSETS		
Cash	$ 1,588,348	$ 1,769,080
Accounts receivable	55,856	-
Inventory	374,316	147,921
Prepaid expenses and other current assets	67,405	258,756
Total Current Assets	2,085,925	2,175,757
ACCOUNTS RECEIVABLE-LONG TERM	316,540	-
PROPERTY AND EQUIPMENT, NET	2,115,102	145,901
OTHER ASSETS	211,375	23,733
PREPAID SERVICE AGREEMENT	500,000	-
TOTAL ASSETS	$ 5,228,942	$ 2,345,391

LIABILITIES AND STOCKHOLDERS' DEFICIT

	2018	2017
CURRENT LIABILITIES		
Accounts payable	$ 274,314	$ 213,879
Accrued expenses	150,026	145,942
Current portion of contract liabilities	-	465,759
Current portion of capital lease obligations	3,004	8,744
Total Current Liabilities	427,344	834,324
LONG-TERM LIABILITIES		
Contract liabilities, net of current portion	592,853	3,253,936
Accrued interest	506,147	37,188
Convertible notes, net of discount	9,596,609	2,325,000
Capital lease obligations, net of current portion	-	3,004
Total Liabilities	11,122,953	6,453,452
COMMITMENTS AND CONTINGENCIES (NOTE 7)		
STOCKHOLDERS' DEFICIT		
Preferred stock, $0.01 par value: 25,000,000 shares authorized and 0 shares outstanding as of both December 31, 2018 and 2017	-	-
Common stock, $0.01 par value: 120,000,000 and 65,000,000 shares authorized as of December 31, 2018 and 2017, respectively and 42,002,813 and 41,982,813 shares issued and outstanding as of December 31, 2018 and 2017, respectively	420,028	419,828
Additional paid-in capital, common stock	20,817,689	20,369,729
Accumulated deficit	(27,131,728)	(24,897,618)
Total Stockholders' Deficit	(5,894,011)	(4,108,061)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 5,228,942	$ 2,345,391

See accompanying notes to financial statements

IMRICOR MEDICAL SYSTEMS INC.

STATEMENTS OF OPERATIONS

For the Years Ended December 31, 2018 and 2017

		2018		2017
REVENUES				
Royalties and license fees	$	811,538	$	378,994
Contract revenue		190,911		54,546
Total Revenue		1,002,449		433,540
OPERATING EXPENSES				
Sales and marketing		703,532		335,844
Research and development		3,526,193		3,747,791
General and administrative		1,589,962		1,365,736
Total Operating Expenses		5,819,687		5,449,371
Loss from Operations		(4,817,238)		(5,015,831)
OTHER INCOME (EXPENSE)				
Interest income		13,009		1,374
Foreign currency exchange gain		158,257		-
Interest expense		(799,760)		(126,231)
Other expense		(2,750)		(3,191)
Total Other Income (Expense)		(631,244)		(128,048)
NET LOSS	$	(5,448,482)	$	(5,143,879)
EARNINGS PER SHARE:				
Basic and diluted loss per common share	$	(0.13)	$	(0.13)
Basic and diluted weighted average shares outstanding		41,997,662		39,521,291

IMRICOR MEDICAL SYSTEMS INC.

STATEMENTS OF STOCKHOLDERS' DEFICIT

For the Years Ended December 31, 2018 and 2017

	Common Stock		Additional Paid-in	Accumulated	Total Stockholders' Equity
	Shares	Amount	Capital	Deficit	(Deficit)
BALANCES, December 31, 2016	36,988,222	$369,882	$16,465,317	$(19,753,739)	$(2,918,540)
Stock-based compensation expense	-	-	487,834	-	487,834
Exercise of warrants	1,035,792	10,358	611,117	-	621,475
Exercise of stock options	125,000	1,250	45,125	-	46,375
Issuance of Common Stock at $0.73 per share for convertible notes and accrued interest	3,833,799	38,338	2,760,336	-	2,798,674
Net loss	-	-	-	(5,143,879)	(5,143,879)
BALANCES, December 31, 2017	41,982,813	419,828	20,369,729	(24,897,618)	(4,108,061)
Cumulative effect of adopting ASC 606 (Note 2)	-	-	-	3,214,372	3,214,372
BALANCES, January 1, 2018	41,982,813	419,828	20,369,729	(21,683,246)	(893,689)
Stock-based compensation expense	-	-	437,120	-	437,120
Exercise of stock options	20,000	200	10,840	-	11,040
Net loss	-	-	-	(5,448,482)	(5,448,482)
BALANCES, December 31, 2018	42,002,813	$420,028	$20,817,689	$(27,131,728)	$(5,894,011)

IMRICOR MEDICAL SYSTEMS INC.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (5,448,482)	$ (5,143,879)
Adjustments to reconcile net loss to net cash flows from operating activities		
Depreciation	77,531	100,597
Stock-based compensation expense	437,120	487,834
Amortization of debt issuance costs	103,963	-
Accrued interest	542,073	125,410
Beneficial conversion feature from conversion of 2017 Notes	153,071	-
Foreign currency exchange gain	(158,257)	-
Changes in assets and liabilities		
Accounts receivable	26,673	-
Inventory	(226,395)	(147,921)
Prepaid expenses and other current assets	191,351	(85,601)
Other assets	(183,781)	-
Accounts payable	58,740	78,963
Accrued expenses	4,084	(15,543)
Contract liabilities	(311,539)	271,006
Net Cash Flows from Operating Activities	(4,733,848)	(4,329,134)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment of security deposit	(3,861)	-
Purchases of property and equipment	(146,732)	(23,414)
Net Cash Flows from Investing Activities	(150,593)	(23,414)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of options	11,040	667,850
Proceeds from convertible notes	4,750,760	3,375,000
Debt issuance costs associated with convertible notes	(49,347)	-
Payments on capital lease obligations	(8,744)	(10,306)
Net Cash Flows from Financing Activities	4,703,709	4,032,544
Net Change in Cash	(180,732)	(320,004)
CASH - Beginning of Year	1,769,080	2,089,084
CASH - End of Year	$ 1,588,348	$ 1,769,080
Supplemental cash flow disclosure		
Cash paid for interest	$ 353	$ 821
Noncash investing and financing activities		
2018 Convertible notes issued in exchange for 2017 Notes and accrued interest	$ 2,551,186	$ -
Convertible notes issued in exchange for debt issuance costs	$ 228,660	$ -
Service agreement received in exchange for convertible notes	$ 500,000	$ -
Property and equipment received in exchange for convertible notes	$ 1,900,000	$ -
Common stock shares issued for convertible notes and accrued interest	$ -	$ 2,798,674

NOTE 1 - Summary of Significant Accounting Policies

Nature of Operations and Basis of Presentation

Imricor Medical Systems Inc. ("Imricor Medical Systems" or the "Company") was incorporated in Delaware on May 23, 2006 and is a medical device company with headquarters in Minneapolis, Minnesota. The Company is focused on the development of devices and systems that are compatible with magnetic resonance imaging (MRI). The products are designed to provide doctors the ability to perform interventional procedures while taking advantage of the superior soft tissue imaging capabilities of MRI. In addition, the Company has licensed patented technology to help make implanted medical devices compatible with MRI.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP.

The Company's financial statements and footnotes are presented in United States dollar.

Cash

Cash consists of funds in depository accounts. The Company holds cash with high quality financial institutions and at times, such balances may be in excess of federal insurance limits.

Accounts Receivable

Accounts receivable are unsecured, are recorded at net realizable value, and do not bear interest except for a revenue transaction with a significant financing component (see **NOTE 2**). The Company makes judgments as to its ability to collect outstanding receivables based upon significant patterns of uncollectability, historical experience, and managements' evaluation of specific accounts and will provide an allowance for credit losses when collection becomes doubtful. The Company performs credit evaluations of its customers' financial condition on an as-needed basis. Payment is generally due 30 days from the invoice date and accounts past 30 days are individually analyzed for collectability. When all collection efforts have been exhausted, the account is written off against the related allowance. To date the Company has not experienced any write-offs or significant deterioration of its accounts receivable aging, and therefore, no allowance for doubtful accounts was considered necessary as of December 31, 2018 or 2017.

Accounts receivable includes unbilled receivables of $40,655 as of December 31, 2018 which represents the current portion of minimum royalties due to the Company during the year ended December 31, 2019. The long-term accounts receivable relates to minimum royalties due to the Company for years ending after December 31, 2019. See **NOTE 2**.

Inventory

Inventories are stated at lower of cost (using the first-in, first-out method) or net realizable value, and are as follows as of December 31:

	December 31, 2018	December 31, 2017
Raw Materials	$ 320,847	$ 147,921
Work in Process	32,778	-
Finish Goods	20,691	-
	$ 374,316	$ 147,921

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Property and Equipment

Property and equipment are stated at cost. Additions and improvements that extend the lives of assets are capitalized, while expenditures for repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is computed on a straight-line basis over the shorter of the estimated useful lives of the related assets or life of the lease.

The standard estimated useful lives of property and equipment are as follows:

Office furniture and equipment	5 years
Lab and production equipment	5 years
Computer equipment	3 years
MRI scanner	7 years
Leasehold improvements	7 years

The Company reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the impairment tests indicate that the carrying value of the asset, or asset group, is greater than the expected undiscounted cash flows to be generated by such asset or asset group, further analysis is performed to determine the fair value of the asset or asset group. To the extent the fair value of the asset or asset group is less than its carrying value, an impairment loss is recognized equal to the amount the fair value of the asset or asset group exceeds its carrying amount. The Company generally measures fair value by considering sale prices for similar assets or asset groups, or by discounting estimated future cash flows from such assets or asset groups using an appropriate discount rate. Considerable management judgment is necessary to estimate the fair value of assets or asset groups, and accordingly, actual results could vary significantly from such estimates. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. To date, the Company has not recognized any impairment loss for property and equipment.

Advertising

Advertising costs are charged to operations when incurred. Advertising expense was $0 for both years ended December 31, 2018 and 2017.

Research and Development Costs

The Company expenses research and development costs as incurred.

Patents

Expenditures for patent costs are charged to operations as incurred.

Capital Leases

Capital leases are recorded as assets and liabilities at the lower of the present value of the minimum lease payments at the beginning of the lease term or the fair value of the leased property at the inception date.

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Income Taxes

Income taxes are recorded under the liability method. Deferred income taxes are provided for temporary differences between financial reporting and tax bases of assets and liabilities. Deferred tax assets are reduced by a valuation allowance to the extent the realization of the related deferred tax asset is not assured.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

Loss per Share

Basic loss per share is computed by dividing net loss by the weighted average shares outstanding during the reporting period. The weighted average common shares outstanding were 41,997,662 and 39,521,291 for the years ended December 31, 2018 and 2017, respectively.

Dilutive net income (loss) per share assumes the exercise and issuance of all potential common stock equivalents in computing the weighted-average number of common shares outstanding, unless their effect is antidilutive. The effects of including incremental shares associated with convertible notes, options, warrants and unvested royalty conversion rights are anti-dilutive due to the net loss incurred and are not included in the diluted weighted average number of shares of common stock outstanding for the years ending December 31, 2018 and 2017.

Foreign currency exchange gains (losses)

The Company has received some convertible note investments (see **NOTE 5**) from Australian investors and has accounts payable for certain expenses to Australian vendors that are denominated in Australian dollars. These liabilities have been translated into U.S. dollars at year-end exchange rates. Foreign currency exchange gains and losses are included in the statements of operations within other income (expense).

Financial Instruments

The carrying amounts for all financial instruments approximate fair value. The carrying amounts for cash, accounts receivable, inventory, accounts payable and accrued expenses approximate fair value because of the short maturity of these instruments. The fair value of long-term receivables and the convertible notes approximate carrying value and have been estimated based on discounted cash flows using interest rates being offered for similar instruments having the same or similar maturities and collateral requirements.

Revenue Recognition

The Company generates revenue principally from technology licenses, research and development services and government contracts. Consideration received for revenue arrangements with multiple components is allocated among the separate performance obligations based upon their relative estimated standalone selling price.

In determining the appropriate amount of revenue to be recognized as we fulfill our obligations under our agreements, we perform the following steps: (i) identify the contract with the customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations; and (v) recognize revenue when (or as) each performance obligation is satisfied.

NOTE 1 - Summary of Significant Accounting Policies (cont.)

The Company enters into collaboration agreements for research and development services that are within the scope of ASC 606, under which it licenses certain rights to its intellectual property to third parties. The terms of these arrangements typically include payment to the Company of one or more of the following: upfront non-refundable license fees; reimbursement of certain costs; development milestone payments; and royalties on net sales of licensed products. The amount of variable consideration is constrained until it is probable that the revenue is not at a significant risk of reversal in a future period. The contracts into which the Company enters generally do not include significant financing components.

As part of the accounting for these arrangements, the Company must use significant judgment to determine: (a) the transaction price under step (iii) above and (b) the timing of revenue recognition, including the appropriate measure of progress in step (v) above. The Company uses judgment to determine whether milestones or other variable consideration, except for royalties, should be included in the transaction price, as described further below. The transaction price is allocated to each performance obligation on a relative stand-alone selling price basis, for which the Company recognizes revenue as or when the performance obligations under the contract are satisfied. If a milestone or other variable consideration relates specifically to the Company's efforts to satisfy a single performance obligation or to a specific outcome from satisfying the performance obligation, the Company generally allocates the milestone amount entirely to that performance obligation once it is probable that a significant revenue reversal would not occur.

Amounts received prior to revenue recognition are recorded as a contract liability. Amounts expected to be recognized as revenue within the 12 months following the balance sheet date are classified as current portion of contract liabilities in the accompanying balance sheets. Amounts not expected to be recognized as revenue within the 12 months following the balance sheet date are classified as contract liabilities, net of current portion.

Licenses of Intellectual Property

In assessing whether a right to use license is distinct from the other promises, the Company considers factors such as the research and development capabilities of the collaboration partner and the availability of the associated expertise in the general marketplace. In addition, the Company considers whether the collaboration partner can benefit from a license for its intended purpose without the receipt of the remaining promise(s), whether the value of the license is dependent on the unsatisfied promise(s), whether there are other vendors that could provide the remaining promise(s), and whether it is separately identifiable from the remaining promise(s). For licenses that are combined with other promises, the Company utilizes judgment to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the appropriate method of measuring progress for purposes of recognizing revenue.

The Company evaluates the measure of progress each reporting period and, if necessary, adjusts the measure of performance and related revenue recognition.

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Milestone Payments

At the inception of each arrangement that includes development milestone payments, the Company evaluates whether the milestones are considered probable of being achieved and estimates the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant reversal of cumulative revenue would not occur, the associated milestone value is included in the transaction price. Milestone payments that are not within the control of the Company or the licensee, such as regulatory approvals, are not considered probable of being achieved until those approvals are received. The Company evaluates factors such as the scientific, clinical, regulatory, commercial, and other risks that must be overcome to achieve the particular milestone in making this assessment. There is considerable judgment involved in determining whether it is probable that a significant reversal of cumulative revenue would not occur. At the end of each subsequent reporting period, the Company reevaluates the probability of achievement of all milestones subject to constraint and, if necessary, adjusts its estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect revenues and earnings in the period of adjustment.

Royalties

Minimum guaranteed royalties are recognized upon the execution of the license agreement as these proceeds are not variable consideration. If it is determined that there is a significant financing component in the agreement, revenue is reduced for the amount that represents future interest income. For agreements that include sales-based royalties, including milestone payments based on a level of sales, and the license is deemed to be the predominant item to which the royalties relate, the Company recognizes revenue at the later of (i) when the related sales occur, or (ii) when the performance obligation to which some or all of the royalty has been allocated has been satisfied (or partially satisfied).

Stock-Based Compensation

The Company recognizes compensation expense for all stock-based payment awards made to employees and non-employee directors and consultants in its statements of operations based on their fair values at the date of grant based on the Black-Scholes pricing model. Stock-based compensation expense is recognized on a straight-line basis over the vesting period for all awards, net of an estimated forfeiture rate, resulting in the recognition of compensation expense for only those shares expected to vest. Compensation expense is recognized for all awards over the vesting period to the extent the employees or directors meet the requisite service requirements, whether or not the award is ultimately exercised. Conversely, when an employee or director does not meet the requisite service requirements and forfeits the award prior to vesting, any compensation expense previously recognized for the award is reversed. See **NOTE 8** for further details and assumptions regarding the Black-Scholes pricing model.

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.

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Subsequent Events

For the year ended December 31, 2018, the Company evaluated, for potential recognition and disclosure, events that occurred prior to the issuance of the financial statements through February 19, 2019.

Recent Accounting Standards

During February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, “Leases.” ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing all lease transactions (with terms in excess of 12 months) on the balance sheet as a lease liability and a right-of-use asset (as defined). ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018 (for public entities) or December 15, 2019 (for private entities), and interim periods within fiscal years beginning after December 15, 2019 (for public entities) or December 15, 2020 (for private entities), with earlier application permitted. The original guidance required application on a modified retrospective basis with the earliest period presented. In August 2018, the FASB issued ASU 2018-11, Targeted Improvements to ASC 842, which includes an option to not restate comparative periods in transition and elect to use the effective date of ASC 842, Leases, as the date of initial application of transition. Based on the effective date, this guidance will apply and the Company will adopt this ASU beginning on January 1, 2019 using the transition option provided under ASU 2018-11. The Company has performed a review of the requirements of the new guidance and has identified which of its leases will be within the scope of ASU 2016-02. The Company is working through an adoption plan which includes a review of lease contracts, applying the new standard to the lease contracts and comparing the results to our current accounting. As part of this, we are assessing changes that might be necessary to processes, and internal controls to capture new data and address changes in financial reporting. Effective January 1, 2019, the Company will be revising its lease accounting policy disclosures to reflect the requirements of ASU 2016-02. The Company expects that the adoption of this guidance will result in a material increase in the assets and liabilities recorded on its balance sheets and additional qualitative and quantitative disclosures. The Company expects to use the effective date of this standard as the date of initial application, with no retrospective adjustments to prior comparative periods.

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting, which relates to the accounting for employee share-based payments. This standard addresses several aspects of the accounting for share-based payment award transactions, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. This standard will be effective for fiscal years beginning after December 15, 2016 (for public entities) or December 15, 2017 (for private entities), including interim periods within those fiscal years. The adoption of this ASU had no impact on the Company’s financial statements.

In June 2018, the FASB issued ASU 2018-07, Compensation – Stock Compensation: Improvements to Nonemployee Share-Based Payment Accounting, which simplifies the accounting for nonemployee share-based payment transactions by expanding the scope of Topic 718, Compensation – Stock Compensation, to include share-based payment transactions for acquiring goods and services from nonemployees. As a result, nonemployee share-based payment transactions will be measured at the grant-date fair value with no classification reassessment requirements after vesting unless the award is modified, among other amendments included in this ASU. This standard is effective for public business entities for fiscal years beginning after December 15, 2018 including interim periods within that fiscal year. Early adoption is permitted, but no earlier than an entity’s adoption date of ASC 606. As discussed in Note 2, the Company adopted ASC 606 as of January 1, 2018. The Company also early adopted ASC 2018-07 related to its nonemployee share-based payment awards and the adoption had no impact on the Company’s financial statements.

NOTE 2 – Revenue Recognition

Effective January 1, 2018, the Company adopted Accounting Standards Codification, or ASC, Topic 606, *Revenue from Contracts with Customers*, or ASC 606, using the modified retrospective method. This standard applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, and financial instruments.

Impact of Adoption

As a result of adopting the standard, the Company recognized an adjustment to reduce the accumulated deficit by $3,214,372 mainly related to accelerating revenue related to minimum royalties and license and development arrangements where the Company has fulfilled their performance obligations as of December 31, 2017.

Royalties and License Fees

On June 1, 2012, the Company licensed certain intellectual property to a customer in exchange for an upfront non-refundable license fee and milestone payments, which could total up to $6,000,000. All these milestone payments, including the non-refundable license fee, were collected on or before October 2015. In addition, the agreement provides for a royalty of 3% of product sales, subject to a minimum of $50,000 per year.

The Company determined that the promises pursuant to the agreement were not distinct from one another, as the license has limited value without the remaining obligations. All obligations were fulfilled on or before October 2015. Prior to the adoption of ASC 606, a portion of the initial upfront payment was included in contract liabilities (formerly deferred revenue) and was being recognized as revenue over the life of the license. The adoption of ASC 606 resulted in the elimination of the remaining balance of $1,333,333 in contract liabilities, as the performance obligation has been fulfilled.

In addition, the adoption of ASC 606 resulted in the recognition of the portion of remaining minimum royalty payments to be received, less the portion which represents future interest income. The amount expected to be received within 12 months is included in Accounts Receivable and the amounts expected to be received in future periods beyond 12 months are included in Accounts Receivable-Long term. Any royalties received in the future which are more than the minimum guaranteed royalty will be recognized when they are earned. Based on revenue recognition requirements applicable under ASC 605, the Company recognized $50,000 of royalty revenue for the year ended December 31, 2017.

On November 27, 2013, the Company licensed certain intellectual property to a customer in exchange for an upfront non-refundable license fee and milestone payments, which can total up to $7,000,000. The Company collected $6,000,000 of these milestone payments, including the non-refundable license fee, on or before October 2016.

The Company determined there were three distinct performance obligations pursuant to the agreement each related to a separate product development program. The first milestone was completed in October 2014. The second milestone has effectively been cancelled. The Company currently has no intention to engage in the development program and there is no contractual obligation to do so. The customer paid the third milestone payment, in advance of final completion of the obligation, as the customer put the project on hold and did not want to lose their exclusive rights to the intellectual property.

NOTE 2 – Revenue Recognition (cont.)

Prior to the adoption of ASC 606, a portion of the initial upfront payment was included in contract liabilities (formerly deferred revenue) and was being recognized as revenue over the life of the license. The adoption of ASC 606 resulted in an allocation of the upfront payment to the first and third milestones on a relative standalone value basis. No allocation of the upfront payment was made to the second milestone, given the Company's position that this development program has been effectively cancelled. The Company has estimated that 72% of the third milestone was completed prior to January 1, 2018. As a result of the adoption of ASC 606, the remaining contract liability associated with the first milestone and 72% of the contract liability associated with the third milestone was eliminated. $373,333, which represents 28% of the third milestone as well as the relative portion of the upfront payment, is included in long-term contract liabilities as of December 31, 2018. The customer sold the portion of the business which held this license in May 2018. The license has been assigned to the purchaser. The project is still on hold with no plans to work on final development during the next 12 months, and therefore, the contract liability is included in long-term liabilities.

In November 2017, the Company licensed certain intellectual property to a customer in exchange for an upfront non-refundable license fee and milestone payments, which can total up to $2,250,000. The non-refundable license fee of $500,000 was collected in November 2017 and two milestone payments totaling $500,000 were collected during the year ended December 31, 2018.

The Company determined that the promises pursuant to the agreement were not distinct from one another, as the license has limited value without the remaining obligations.

Prior to the adoption of ASC 606, a portion of the initial upfront payment was included in contract liabilities and was being recognized as revenue over the life of the license. The adoption of ASC 606 resulted in a change in recognition of the upfront payment from over the life of the license to over the period of expected performance. As of December 31, 2018, the Company determined that it would not be able to fulfill the remaining two milestones in the timeframe as outlined in the agreement. The Company is in negotiations with the customer to amend the agreement to change the dates for completion of the remaining milestones. However, as of December 31, 2018, the Company had completed all of its performance obligations related to the milestones probable of completion. Consequently, the Company recognized the remaining upfront non-refundable license fee of $461,538 during the year ended December 31, 2018. In addition, during the year ended December 31, 2018, the Company recognized $350,000 related to the achievement of the first two milestones which was recognized over time as the performance obligation was fulfilled, subject to constraint.

The Company recognized $7,353 in license fees during the year ended December 31, 2017 related to a portion of the upfront non-refundable license fee which was being recognized over the life of the license.

See impact of adoption within this footnote and additional discussion regarding the Company's revenue policies in **NOTE 1** to these financial statements.

Government Contract Revenue

The Company was awarded a contract with the government on September 26, 2017 for up to $2,402,951 to develop a Magnetic Resonance Imaging (MRI) compatible injection catheter for MRI-guided procedures. The Company recognizes revenue for this contract over time using the "as invoiced" practical expedient. There was no change in the pattern of revenue recognition under ASC 606 for this contract. The Company recognized $190,911 and $54,546 as revenue during the years ended December 31, 2018 and 2017, respectively.

Contract Liabilities

Amounts received prior to satisfying the above revenue recognition criteria are recorded as contract liabilities in the accompanying balance sheets, with the contract liabilities to be recognized beyond one year being classified as non-current contract liabilities. As of December 31, 2018, and 2017, the Company had contract liabilities of $592,853 and $3,719,695, respectively. See impact of adoption within this footnote and additional discussion regarding the Company's revenue policies in **NOTE 1** to these financial statements.

NOTE 2 – Revenue Recognition (cont.)

The following table sets forth information related to the contract liabilities as of December 31, 2018:

	Contract Liabilities
December 31, 2017	$3,719,695
Decrease as a result of cumulative catch-up arising from the adoption of ASC 606	(2,815,303)
Decrease from revenue recognized for completion of performance obligations that was included in contract liabilities at the beginning of the period	(311,539)
December 31, 2018	$ 592,853

The decrease in contract liabilities during the year ending December 31, 2018 was a result of the Company continuing development on certain applications using the Company's licensed technology.

The cumulative effect of the changes made to our balance sheet as of January 1, 2018 for the adoption of ASC 606 were as follows:

	Balance as of December 31, 2017	Adjustment	Balance as of January 1, 2018
CURRENT ASSETS			
Accounts receivable	$ -	$ 41,874	$ 41,874
Total Current Assets	2,175,757	41,874	2,217,631
ACCOUNTS RECEIVABLE-LONG TERM	-	357,195	357,195
TOTAL ASSETS	$ 2,345,391	$ 399,069	$ 2,744,460
CURRENT LIABILITIES			
Current portion of contract liabilities	$ 465,759	$ (154,220)	$ 311,539
Total Current Liabilities	834,324	(154,220)	680,104
LONG-TERM LIABILITIES			
Contract liabilities, net current portion	3,253,936	(2,661,083)	592,853
Total Liabilities	6,453,452	(2,815,303)	3,638,149
STOCKHOLDERS' DEFICIT			
Accumulated deficit	(24,897,618)	3,214,372	(21,683,246)
Total Stockholders' Deficit	(4,108,061)	3,214,372	(893,689)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 2,345,391	$ 399,069	$ 2,744,460

NOTE 2 – Revenue Recognition (cont.)

The following table summarizes the impact of the adoption of ASC 606 on the Company's Balance Sheet as of December 31, 2018:

	As Reported	Adjustment	Balances without Adoption of ASC 606
CURRENT ASSETS			
Accounts receivable	$ 55,856	$ (40,655)	$ 15,201
Total Current Assets	2,085,925	(40,655)	2,045,270
ACCOUNTS RECEIVABLE-LONG TERM	316,540	(316,540)	-
TOTAL ASSETS	$ 5,228,942	$ (357,195)	$ 4,871,747
CURRENT LIABILITIES			
Current portion of contract liabilities	$ -	$ 465,759	$ 465,759
Total Current Liabilities	427,344	465,759	893,103
LONG-TERM DEBT			
Contract liabilities, net current portion	592,853	2,295,324	2,888,177
Total Liabilities	11,122,953	2,761,083	13,884,036
STOCKHOLDERS' DEFICIT			
Accumulated deficit	(27,131,728)	(3,118,278)	(30,250,006)
Total Stockholders' Deficit	(5,894,011)	(3,118,278)	(9,012,289)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 5,228,942	$ (357,195)	$ 4,871,747

The following table summarizes the impact of the adoption of ASC 606 on the Company's Statement of Operations for the year ended December 31, 2018:

	As Reported	Adjustment	Balances without Adoption of ASC 606
REVENUES			
Royalties and License Fees	$ 811,538	$ 104,221	$ 915,759
Total Revenue	1,002,449	104,221	1,106,670
Loss from Operations	(4,817,238)	104,221	(4,713,017)
OTHER INCOME (EXPENSE)			
Interest Income	13,009	(8,126)	4,883
Total Other Income (Expense)	(631,244)	(8,126)	(639,370)
Net Loss	$ (5,448,482)	$ 96,095	$ (5,352,387)
Basic and diluted loss per common share	$ (0.13)		$ (0.13)

NOTE 2 – Revenue Recognition (cont.)

The following table summarizes the impact of the adoption of ASC 606 on the Company's Statement of Cash Flows for the year ended December 31, 2018:

	As Reported	Adjustment	Balances without Adoption of ASC 606
Net Loss	$ (5,448,482)	$ 96,095	$ (5,352,387)
Change in assets and liabilities			
Account receivable	26,673	(41,874)	(15,201)
Contract liabilities	(311,539)	(54,221)	(365,760)

NOTE 3 – Going Concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. The Company incurred losses from operations and negative cash flows from operations for both of the years ended December 31, 2018 and 2017, had an accumulated deficit as of December 31, 2018 and is in need of additional working capital to fund future operations. These conditions raise substantial doubt about its ability to continue as a going concern.

Even if the Company’s products and technology can be commercialized, there is no assurance that they can be marketed to generate any significant sales, earnings, profits or positive cash flows. To continue in existence and expand its operations, the Company will be required to, and management plans to, raise additional working capital through an equity or debt offering and ultimately attain profitable operations. If the Company is not able to raise additional working capital, it would have a material adverse effect on the operations of the Company and continuing research and development of its product, as well as commercialization.

NOTE 4 – Property and Equipment

Property and equipment consisted of the following:

	December 31, 2018	December 31, 2017
Office furniture and equipment	$ 179,133	$ 167,367
Lab and production equipment	742,977	633,719
Computer equipment	178,259	160,403
MRI scanner	1,200,000	-
Leasehold improvements	717,283	9,431
	3,017,652	970,920
Less: Accumulated depreciation and amortization	(902,550)	(825,019)
	$ 2,115,102	$ 145,901

Depreciation expense was $77,531 and $100,597 for the years ended December 31, 2018 and 2017, respectively. The MRI scanner and leasehold improvements related to new space being leased to house the MRI scanner are not yet placed in service and therefore are not being depreciated as of December 31, 2018. The Company expects to place these assets in service in May 2019.

NOTE 5 – Convertible Notes (cont.)

On August 25 and November 4, 2016, the Company issued $1,630,000 in unsecured convertible notes (“Notes”) with several equity investors, including $100,000 to related parties. During February 2017, the Company issued $1,050,000 in additional Notes with several investors. The notes bore interest at a rate of six percent annually from the date of issuance and were due on August 1, 2017. In August 2017, the Company converted the Notes and accrued interest totaling $2,798,674 into 3,833,799 shares of Common stock (see **NOTE 8).**

During September and October 2017, the Company issued $2,325,000 in unsecured convertible notes (“2017 Notes”) with several equity investors, including $885,000 issued to related parties. The notes bore interest at a rate of six percent annually from the date of issuance and principal and interest were due on August 31, 2018. The 2017 Notes, including accrued interest were automatically convertible into the next round of equity financing if at least $5,000,000 in new funding was raised (“Qualified Financing”) prior to the maturity date, at a conversion price equal to 94% of the price per share paid by investors in the Qualified Financing. As the conversion features were contingent upon completion of a Qualified Financing, no beneficial conversion feature was recorded upon commencement of the notes. Accrued interest as of December 31, 2017 was $37,188. No interest was paid on the 2017 Notes during the year ended December 31, 2017.

During April 2018, the 2017 Notes and accrued interest of $2,398,115 were converted, with a six percent discount of $153,071, into $2,551,186 in new unsecured convertible notes (“2018 Notes”), of which $967,686 was to related parties. The Company also issued $7,379,420 of new 2018 Notes with several current and new investors, including $260,000 to related parties. In connection with the issuance of the 2018 Notes, a strategic investor invested $3,400,000 consisting of $1,000,000 in cash, and $2,400,000 of in-kind contribution. The in-kind contribution includes $1,200,000 for a MRI scanner, $500,000 for a four-year prepaid service agreement on the MRI scanner, and $700,000 in a leasehold improvement allowance to build out space to house the MRI scanner. The MRI scanner and leasehold improvements are included in property and equipment. The prepaid service agreement is included in other long-term assets. In connection with the 2018 Notes, the Company incurred debt issuance costs of $278,007, of which $228,660 were settled with the issuance of additional 2018 Notes. These debt issuance costs are being amortized straight-line over the expected maturity date and are recognized as interest expense. The 2018 Notes bear interest at a rate of eight percent annually from the date of issuance until the outstanding principal is paid or converted. The 2018 Notes shall automatically convert into Conversion Shares (as defined in the 2018 Notes) immediately prior to, and contingent upon, the allotment of CHESS Depositary Interests (CDIs) as a result of an Australian Initial Public Offering (IPO). The number of Conversion Shares to be issued upon conversion of the 2018 Notes is determined as 80% of the IPO price if the IPO occurs within 12 months from the initial closing or 75% of the IPO price, if the IPO occurs later than 12 months from the initial closing, subject to a maximum conversion value of $60,000,000. The Company recorded $695,144 in interest expense for the year ended December 31, 2018 related to the 2017 and 2018 Notes, of which $153,071 represents the six percent discount related to the 2017 Note conversion, and $35,926 of additional accrued interest converted, both of which are included in the convertible debt balance and $506,147 which is included in accrued interest. If the 2018 Notes are not converted as a result of an Australian IPO, the principal balance, along with accrued interest and an additional 15% of the total unpaid balance will be due 24 months from the initial closing of the 2018 Notes. As of December 31, 2018, the contingent interest is $1,541,520. The Company has determined that it is not probable that the potential contingent interest will be incurred and therefore, no amount has been accrued or expensed as of December 31, 2018.

On February 4, 2019, the Company issued $810,005 in additional 2018 Notes, including $550,006 to related parties.

NOTE 5 – Convertible Notes (cont.)

The following table summarizes the Convertible notes, discount and interest:

	December 31, 2018	December 31, 2017
Convertible notes-related parties	$ 1,227,686	$ 885,000
Convertible notes-all other	8,542,967	1,440,000
Total Convertible notes	9,770,653	2,325,000
Debt discount	(174,044)	-
Convertible notes, net of discount	$ 9,596,609	$ 2,325,000
Interest expense-related parties	$ 140,580	$ 10,949
Interest expense-all other	554,564	26,239
Total Interest expense	$ 695,144	$ 37,188
Accrued interest-related parties	$ 68,844	$ 10,949
Accrued interest-all other	437,303	26,239
Total Accrued interest	$ 506,147	$ 37,188

NOTE 6 – Capital Lease Obligations

The Company acquired various equipment during 2014 under capital leases. The cost of the equipment capitalized was $104,017. Accumulated amortization as of December 31, 2018 and 2017 was $100,381 and $79,578, respectively. Amortization expense is included in general and administrative expenses on the statement of operations as depreciation expense.

The following is a schedule by year of the remaining minimum payments required under the lease as of December 31, 2018:

2019	$ 3,032
Total minimum lease payments	3,032
Less amount representing interest	(28)
Present value of minimum payments	3,004
Less current portion	(3,004)
Capital lease, net of current portion	$ -

NOTE 7 - Commitments and Contingencies

Operating Lease Obligations

In March 2007, the Company entered into an operating lease agreement for its office space which was originally set to expire in July 2014. The lease has been extended through July 2019. The Company entered into a second operating lease agreement for office and warehouse space in August 2018 which expires in March 2026. The lease commencement date is January 1, 2019. Both lease agreements require the Company to pay a pro rata portion of the lessor's operating expenses. Rent expense of $120,234 and $116,445 was incurred for the years ended December 31, 2018 and 2017, respectively.

Future base minimum lease payments are expected to be as follows for the years ending December 31:

	Total
2019	$ 91,837
2020	28,379
2021	29,230
2022	30,107
2023	31,010
Thereafter	74,769
Total	$ 285,332

Retirement Plan

The Company maintains a 401(k) retirement plan for its employees in which eligible employees can contribute a percentage of their compensation. The Company may also make discretionary contributions. The Company did not make any contributions for the years ended December 31, 2018 and 2017.

Employment Agreement

The Company has an employment agreement with the CFO of the Company. The agreement requires severance of six months of current annual salary and medical insurance in the event employment is terminated without cause.

NOTE 8 - Stockholders' Deficit

Capital Stock Authorized

As of December 31, 2018, the Board of Directors of the Company had authorized 145,000,000 shares of capital stock, consisting of 120,000,000 shares of common stock and 25,000,000 shares of preferred stock. As December 31, 2017, the Board of Directors of the Company had authorized 90,000,000 shares of capital stock, consisting of 65,000,000 shares of common stock and 25,000,000 shares of preferred stock.

Common Stock

During January, February and March 2017, 1,035,792 warrants to purchase common stock were exercised at $0.60 per share for total proceeds of $621,475.

During May 2017, 125,000 options to purchase common stock were exercised at $0.371 per share for total proceeds of $46,375.

On August 1, 2017, the Company converted Notes and accrued interest totaling $2,798,674 into 3,833,799 shares of Common stock (see **NOTE 5)** at a price per share of $0.73.

NOTE 8 - Stockholders' Deficit (cont.)

During April 2018, 20,000 options to purchase common stock were exercised at $0.552 per share for total proceeds of $11,040.

Dividend Rights

Subject to the prior rights of holders of all classes of stock at the time outstanding having prior rights as to dividends, the holders of the common stock shall be entitled to receive, out of any assets of the Corporation legally available therefore, any dividends as may be declared from time to time by the Board of Directors. The right to such dividends shall not be cumulative, and no right shall accrue by reason of the fact that dividends are not declared in any prior period.

Voting Rights

The holder of each share of common stock shall have the right to one vote for each such share, shall be entitled to notice of any stockholders' meeting in accordance with the Bylaws of the Corporation, and shall be entitled to vote upon such matters and in such manner as may be provided by law.

Stock Option Plans

The Company and its stockholders adopted a stock incentive plan (the "Plan") in 2006. The Plan, as amended on January 26, 2011 by the shareholders, reserved 10,918,500 shares of the Company's common stock for the granting of incentive and nonqualified stock options to employees, directors and consultants. On May 22, 2016, the Company replaced the 2006 Plan with the 2016 Plan, as the 2006 Plan was expiring. The terms of the Plan were the same as the 2006 Plan. In August 2018, the Board of Directors approved an increase of 500,000 shares to the option pool. On February 14, 2019, the Board of Directors terminated the 2016 Plan and approved the 2019 Option Plan, reserving 11,418,500 shares of the Company's common stock for the granting of incentive and nonqualified stock options to employees, directors and consultants. On February 14, 2019, the Board of Directors also authorized the Company to offer to current employees, directors and consultants an option to exchange certain previously issued options for repriced options with additional vesting requirements. This option modification will be accounted for in 2019 when the option cancellation and reissuance takes place.

The Board of Directors determines the exercise price of all options, but the exercise price of incentive options shall not be less than the fair value of the common stock at the date of grant. Vesting terms of outstanding options range from immediate to four years. In no event are the options exercisable for more than ten years after the date of grant. The Company issues new shares of common stock when stock options are exercised.

Information regarding the Company's stock options is summarized below:

	Number of Options	Weighted- Average Exercise Price	Aggregate Intrinsic Value
Options outstanding - December 31, 2017	9,179,033	$ 0.53	
Exercised	(20,000)	0.55	
Cancelled	(292,200)	0.50	
Granted	1,069,000	0.85	
Options outstanding - December 31, 2018	9,935,833	$ 0.56	$1,101,322
Options exercisable - December 31, 2018	8,043,068	$ 0.39	$1,101,322
Weighted average fair value of options granted during the year ended December 31, 2018		$ 0.43	
Weighted average fair value of options granted during the year ended December 31, 2017		$ 0.40	

As of December 31, 2018, the Company had 108,267 shares available for grant under the Plan.

The weighted average remaining contractual life of options outstanding and exercisable was 5.05 and 3.82 years, respectively, as of December 31, 2018.

NOTE 8 - Stockholders' Deficit (cont.)

The intrinsic value of options exercised during the years ended December 31, 2018 and 2017 was $5,960 and $44,875 respectively.

The fair value of option awards granted was determined using the Black-Scholes option pricing model utilizing the following assumptions:

	2018	2017
Expected life	5 - 7 years	5 - 7 years
Volatility	48.12%	50%
Risk-free interest rate	2.83%	2.0%
Dividend Yield	0%	0%

The Company reviews its current assumptions on a periodic basis and adjusts them as necessary to determine the option valuation. The expected life represents the period that the stock option awards are expected to be outstanding and is based on an evaluation of historic expected lives from the Company's stock option grants. Volatility is based on historic volatilities of traded shares from a selected publicly traded peer group, believed to be comparable after consideration of size, maturity, profitability, growth, risk and return on investment. The risk-free interest rate is based on the yield of constant maturity U.S. treasury bonds with a remaining term equal to the expected life of the awards at the grant date. The expected dividend yield is zero, as the Company has not paid or declared any dividends to common stock holders and does not expect to pay dividends in the foreseeable future. Historical data is used to estimate pre-vesting forfeitures and the Company records stock-based compensation expense only for those awards that are expected to vest.

Total stock-based compensation expense resulting from options granted was $437,120 and $487,834 for the years ended December 31, 2018 and 2017, respectively, and charged to the Company's Statement of Operations as follows:

	December 31,	
	2018	2017
Sales and marketing	$ 200,557	$ 95,987
Research and development	208,232	391,795
General and administrative	28,331	52
	$ 437,120	$ 487,834

No income tax benefits were recognized related to this compensation expense due to the full valuation allowance provided on the Company's deferred income tax assets.

As of December 31, 2018, the total unrecognized compensation cost related to unvested stock options was $899,405. Future stock-based compensation expense is expected to be as follows for the years ending December 31:

	Total
2019	$ 347,580
2020	266,983
2021	251,939
2022	32,903
Total	$ 899,405

NOTE 8 - Stockholders' Deficit (cont.)

Stock Warrants

The Company has also issued warrants to purchase shares of common stock which are summarized below:

	Number of Warrants		Weighted- Average Exercise Price
Warrants outstanding - December 31, 2018	937,909	$	0.67
Warrants outstanding - December 31, 2017	937,909	$	0.67
Remaining weighted average contractual life in years, as of December 31, 2018			1.1

During January, February and March 2017, 1,035,792 warrants to purchase common stock were exercised at $0.60 per share for total proceeds of $621,475. 991,794 warrants to purchase common stock at $0.60 per share expired on March 1, 2017.

Royalty Conversion Rights

The Company has issued rights to 7,200,000 shares of common stock upon the earlier of an acquisition transaction, an initial public offering pursuant to an effective registration statement under the Securities Act of 1933 for the account of the Company, or the expiration of certain license agreements.

NOTE 9 - Income Taxes

The Company has generated both federal and state net operating losses (NOL) of approximately $23,369,000 and federal and state research and development credit carryforwards of approximately $1,460,000 as of December 31, 2018, which, if not used, will begin to expire in 2023. The Company believes that its ability to fully utilize the existing NOL and credit carryforwards could be restricted by changes in control that may have occurred or may occur in the future and by its ability to generate net income. The Company has not yet conducted a formal study of whether, or to what extent, past changes in control of the Company impairs its NOL and credit carryforwards because such NOL and credit carryforwards cannot be utilized until the Company achieves profitability. The Company has established a full valuation allowance as of December 31, 2018 and 2017, that offsets the net tax benefits associated with the NOL and credit carryforwards since realization of these tax benefits is not more likely than not.

Income tax expense (benefit) consists of the following as of December 31:

	2018	2017
Current:		
Federal	$ -	$ -
State	-	-
	-	-
Deferred:		
Federal	(590,000)	996,000
State	-	-
	(590,000)	996,000
Deferred tax asset valuation allowance	590,000	(996,000)
Total provision (benefit)	$ -	$ -

NOTE 9 - Income Taxes (cont.)

Components of deferred income taxes are as follows as of December 31:

	2018	2017
Deferred tax assets (liabilities):		
Net operating loss carryforwards	$ 6,086,000	$ 4,867,000
Research and development credit carryforwards	1,168,000	1,015,000
Stock-based compensation	138,000	127,000
Accrued expenses	136,000	28,000
Deferred revenue	154,000	967,000
Prepaid expenses and other assets	(104,000)	(12,000)
Depreciation and amortization	5,000	1,000
Gross deferred tax assets (liabilities)	7,583,000	6,993,000
Less valuation allowance	(7,583,000)	(6,993,000)
Net deferred tax assets	$ -	$ -

The change in the valuation allowance was $590,000 and $996,000 for the years ended December 31, 2018 and 2017, respectively.

The effective tax rate for the year ended December 31, 2018 differs from the federal and state statutory tax rates mainly due to the change in full valuation allowance, non-deductible incentive stock option expense, and research and development credits.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. As a result, the Company has recognized a reserve of approximately $292,000 and $254,000 for uncertain tax positions which was recorded directly against the valuation allowance as of December 31, 2018 and 2017, respectively. If recognized, these benefits would favorably impact the effective tax rate.

The tax years from inception through December 31, 2018 remain subject to examination by all major taxing authorities due to the net operating loss carryovers. The Company is not currently under examination by any taxing jurisdiction. In the event of any future tax assessments, the Company has elected to record the income taxes and any related interest and penalties as income tax expense in the Company's Statement of Operations.

Changes in tax laws and rates may affect recorded deferred tax assets and liabilities and our effective tax rate in the future. On December 22, 2017, the U.S. President signed into law the U.S. Tax Cuts and Jobs Act (the "Act"), which enacted tax law changes largely effective for tax years beginning after December 31, 2017. The Act reduced the corporate tax rate from 34% to 21%, effective January 1, 2018, for all corporations. U.S. GAAP requires that the impact of tax legislation be recognized in the period in which the law was enacted. The Company revalued its deferred tax assets and liabilities as of December 22, 2017, which resulted in a reduction in net deferred tax assets of $2,905,000, which was offset by a decrease in the valuation allowance by the same amount, and therefore the Company did not recognize any income tax expense related to the revaluation.