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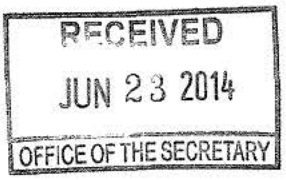
UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION
June 20, 2014



Administrative Proceeding
File No. 3-15864

In the Matter of	
IMAGING DIAGNOSTIC SYSTEMS, INC.	
Respondent.	

DIVISION OF ENFORCEMENT'S MOTION FOR SUMMARY DISPOSITION AGAINST RESPONDENT IMAGING DIAGNOSTIC SYSTEMS, INC.

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I. Introduction

The Division of Enforcement moves for summary disposition against Respondent Imaging Diagnostic Systems ("Imaging") pursuant to Commission Rules of Practice 154 and 250, based on the undisputed facts Imaging has admitted in its answer and other undisputed facts. These facts show Imaging: (1) recently underwent a wholesale change in management after the Commission brought fraud charges against the company and its two top officers; (2) has been delinquent in filing its required periodic filings with the Commission for more than a year; (3) currently does not have the funds to make any filings; (4) has been without funding to run its business for years; and (5) therefore cannot offer any credible assurances it will bring its filings current and be able to make timely future filings.

Accordingly, the public does not have access to past and current audited financial and other important information about the company, which is especially crucial in light of the recent fraud charges the company agreed to settle. For the protection of investors and to serve the public interest, the Law Judge should revoke the registration of Imaging's securities registered with the Commission pursuant to Section 12 of the Securities Exchange Act of 1934 ("Exchange Act"). The three-month suspension Imaging has suggested is an inadequate remedy to protect the investing public.

II. Statement Of Undisputed Facts

1. Imaging is a Florida corporation with its principal place of business located in Fort Lauderdale, Florida. Order Instituting Proceedings ("OIP") at ¶ II.A.1; Answer of Respondent Imaging Diagnostic Systems, Inc. ("Answer") at ¶ II.1.

2. Imaging's securities are registered with the Commission under Exchange Act Section 12(g), and the company's common stock is quoted on the OTC Link operated by OTC

Markets Group Inc. under the symbol "IMDS." OIP at ¶ II.A.1; Answer at ¶ II.1.

3. Exchange Act Section 13(a) and the rules promulgated thereunder require issuers of securities registered pursuant to Exchange Act Section 12 to file with the Commission current and accurate information in periodic reports. More specifically, Rule 13a-1 requires all issuers to file annual reports, and Rule 13a-13 requires domestic issuers, among others, to file quarterly reports. OIP at ¶ II.A.3; Answer at ¶ II.3.

4. At the time the Commission instituted the OIP, Imaging had not made its three most recent required filings: its Form 10-K for the fiscal year ending June 30, 2013, its Form 10-Q for the quarter ending Sept. 30, 2013, and its Form 10-Q for the quarter ending December 31, 2013. OIP at ¶ II.A.1; Answer at ¶ II.1. *See also* Commission Attestations, attached as Exhibits 1(A), 1(B), and 1(C).

5. Since the Commission instituted the OIP, Imaging has failed to make another required filing, its 10-Q for the quarter ending March 31, 2014. Commission Attestation, attached as Exhibit 2.

6. Furthermore, Imaging has not filed any Forms 12b-25 explaining its inability to timely file these periodic reports. OIP at ¶ II.A.1; Answer at ¶ II.1; Commission Attestation, attached as Exhibit 3.

7. The only explanation the company offered for not filing any of these reports came in an 8-K it filed on Sept. 30, 2013, stating it did not have the money to pay the costs associated with filing its Form 10-K for the fiscal year ending June 30, 2013. Form 8-K, attached as Exhibit 4, at 2. The company went on to state:

> These costs include the fee for the independent registered public accounting firm to conduct the annual audit, the fee for legal review, and the cost of the XBRL filing with the Securities and Exchange Commission's EDGAR system.
>
> While the Company is seeking strategic funding, no assurance can be made that such funding will be obtained. As of the date of this Current Report, a date when the Form 10-K can be filed cannot be estimated.

Id.

8. To this date, Imaging still does not have the funding required to complete its delinquent periodic reports. Answer at ¶ III (noting Imaging is still trying to raise the money necessary to make its delinquent filings).

9. Prior to the Commission instituting the OIP, the Division of Corporation Finance wrote Imaging a letter notifying the company it was delinquent in its filings and reminding it that it could be subject to a 12(j) proceeding and other possible sanctions if it did not become current. Letter of Marva D. Simpson, attached as Exhibit 5. Imaging did not respond.

10. As a result of its failure to file the required periodic reports, Imaging is in violation of Exchange Act Section 13(a) and Rules 13a-1 and 13a-13. OIP at ¶ II.B.4; Answer at ¶ II.4.

11. Imaging's sole product is called the CTLM®, short for Computed Tomography Laser Mammography. Imaging Form 10-Q for the period ending March 31, 2013, attached as Exhibit 6, at 6. The company describes the product as a "laser breast imaging system that uses computed tomography and laser techniques designed to detect breast abnormalities." Ex. 6 at 51. Since its inception in 1993, Imaging has been attempting to complete the process to obtain approval from the Food and Drug Administration ("FDA") to market and sell the CTLM® in the United States. *Id.*

12. In September 2013, the Commission filed a civil enforcement action against Imaging and its two top officers, CEO Linda Grable and CFO Allan Schwartz, in United States District Court for the Southern District of Florida. Complaint in Case No. 13-cv-62025, attached as Exhibit 7; Imaging Form 8-K dated March 17, 2014, attached as Exhibit 8, at 2.

13. The District Court complaint in summary alleged that Imaging, Grable, and Schwartz, among other things, committed fraud in violation of Section 10(b) of the Exchange Act, Rule 10b-5, and Section 17(a) of the Securities Act of 1933 ("Securities Act"), by making misrepresentations and omissions in Imaging's public flings about the timing and likelihood of Imaging filing the appropriate application to get approval to market and sell the CTLM® in the United States. Ex. 7; Ex. 8 at 2.

14. More specifically, the complaint alleged Grable, Schwartz and Imaging stated the company would file the application by specific deadlines when they knew the company could not meet those deadlines because it did not have the funding to complete the necessary clinical studies to make the application. Ex. 7.

15. Without admitting or denying the allegations of the complaint, Imaging, Grable, and Schwartz settled the case by agreeing to entry of injunctions against them. Ex. 8 at 2. *See also* Final Judgments against Imaging (attached as Exhibit 9(A)); Grable (attached as Exhibit 9(B)); and Schwartz (attached as Exhibit 9(C)). The Final Judgments against Grable and Schwartz also contained officer-and-director bars and an order for each of them to pay a $150,000 civil penalty. Exs. 9(B) and 9(C); Ex. 8 at 2.

16. On March 17, 2014, Imaging filed a Form 8-K in which the company announced the resolution of the Commission's case. Ex. 8 at 2. At that time, the company also announced

Grable and Schwartz were resigning as a result of the officer-and-director bars, and that Grable's son Richard Grable was taking over as CEO of Imaging. Ex. 8 at 2.

17. The funding issues Imaging has acknowledged in its Answer and which the District Court complaint alleged was at the root of the misrepresentations and omissions is nothing new for Imaging. In sworn investigative testimony during the investigation leading to the filing of the complaint, Grable acknowledged on numerous occasions that Imaging had money problems as far back as 2008. She acknowledged the money problems left Imaging unable to complete the clinical testing necessary to finalize its FDA application, and that the company was constantly seeking additional funding but having trouble getting it. Linda Grable Testimony Transcript, attached as Exhibit 10, at: 17 L.5-17; 38 L.17 to 39 L.3; 50 L.14 to 53 L.5; 54 L.11-16; 55 L.10-12; 77 L.3 to 78 L.1; 80 L.14 to 85 L.1; 86 L.1-24; 102 L.7 to 103 L.12; 106 L.18-23; 108 L.22 to 109 L.24; 126 L.2 to 127 L.19.

III. Memorandum Of Law

A. Summary Disposition Standards

Commission Rule of Practice 250(b) provides that the Law Judge may grant a summary disposition motion if there is no genuine issue with regard to any material fact and the party is entitled to summary disposition as a matter of law. 17 C.F.R. § 201.250(b); *In the Matter of Michael Puorro, et al.,* AP File No. 3-11419 2004 WL 1462250 at *2 (Init. Dec. June 28, 2004). The standard has been analogized to the criteria for granting summary judgment under Federal Rule of Civil Procedure 56, including the standard that an opposing party must set forth specific facts showing the need for a hearing or that there is a material fact in genuine dispute. *In the Matter of Edward Becker,* AP File No. 3-11367, 2004 WL 1238256 at *2 (Init. Dec. June 3, 2004).

The facts of the pleadings of the party against whom the motion is made shall be taken as true and viewed in the light most favorable to the non-moving party, except as modified by the non-moving party's stipulations or admissions, uncontested affidavits, or by facts officially noticed pursuant to 17 C.F.R. § 201.323. *In the Matter of American Resource Technologies, Inc., et al.*, AP File No. 3-14378, 2011 WL 4001029 at *2 (Sept. 9, 2011).

Here, Imaging has admitted all of the relevant facts against it in its Answer – that its securities are registered with the Commission pursuant to Exchange Act Section 12; that it failed to make the required filings of its Form 10-K for the fiscal year ending June 30, 2013, its Form 10-Q for the quarter ending Sept. 30, 2013, and its Form 10-Q for the quarter ending December 31, 2013; and that it is in violation of Exchange Act Section 13(a) and Rules 13a-1 and 13a-13 for failing to make those filings. Answer at ¶¶ II.1-4. Thus, there is no genuine issue of material fact for resolution, and the Division is entitled to summary disposition as a matter of law against Imaging.[1] The question for resolution on this motion is whether revocation of Imaging's securities is the appropriate sanction.

B. Revocation Is The Appropriate Sanction

In *In the Matter of Gateway Int'l Holdings Inc. and Lawrence A. Consalvi*, AP File No. 3-11894, 2006 WL 1506286 at *4 (Comm'n Opin. May 31, 2006), the Commission set forth the list of non-exclusive public interest factors it will consider in determining the appropriate sanctions in

[1] Compliance with annual and quarterly reporting obligations "is mandatory and may not be subject to conditions from the registrant." *In the Matter of Appiant Technologies, Inc., et al.*, AP File No. 3-13998, 2010 WL 4732979 at *4 (Init. Dec. Nov. 22, 2010) (quotation and citation omitted). Thus, issues such as lack of financing, a change in management, or lack of an independent auditor will not excuse non-compliance with the filing requirements of Section 13(a) and Rules 13a-1 and 13a-13. *See, e.g., In the Matter of Paivis Corp., et al.*, AP File No. 3-13527, 2009 WL 3100586 at *4 (Init. Dec. Sept. 29, 2009); *In the Matter of Markland Technologies, Inc.*, AP File No. 3-13147, 2008 WL 5221033 at *5 (Init. Dec. Dec. 15, 2008).

a Section 12(j) proceeding. Those factors include: (i) the seriousness of the issuer's violations; (ii) the isolated or recurrent nature of the violations; (iii) the degree of culpability involved; (iv) the extent of the issuer's efforts to remedy its past violations and ensure future compliance; and (v) the credibility of its assurances, if any, against future violations. *Id; see also In the Matter of Absolute Potential, Inc.*, AP File No. 3-14587, 2014 WL 1338256 at *4 (Comm'n Opin. April 4, 2014).

Although no one factor is dispositive, the Commission has stated it views the "recurrent failure to file periodic reports as so serious that only a strongly compelling showing with respect to the other factors we consider would justify a lesser sanction than revocation." *In the Matter of Impax Labs., Inc.*, AP File No. 3-12519, 2008 WL 2167956 at *8 (Comm'n Opin. May 23, 2008). As set forth below, an analysis of the *Gateway* factors, and in particular Imaging's continuing failure to make timely periodic filings, shows the only appropriate sanction is revocation of Imaging's securities registration.

1. Imaging's Continued Section 13(a) Violations Are Serious

As the Commission made clear in *Impax Laboratories,* an issuer's failure to file periodic reports is a serious matter. *See also Appiant Technologies*, 2010 WL 4732979 at *4 ("failure to file periodic reports violates a crucial provision of the Exchange Act"); *Markland Technologies*, 2008 WL 5221033 at *4 ("The purpose of the periodic reporting requirements is to publicly disclose current, accurate financial information about an issuer so that investors may make informed decisions"); *SEC v. Beisinger Indus. Corp.*, 552 F2d 15, 18 (1st Cir. 1977) ("The reporting requirements of the Securities Exchange Act of 1934 is the primary tool which Congress has fashioned for the protection of investors from negligent, careless, and deliberate misrepresentations in the sale of stock and securities"); *In the Matter of China-Biotics, Inc.,* AP

File No. 3-14581, 2013 WL 5883342 at *11 (Comm'n Opin. Nov. 4, 2013) ("the reporting requirements are one of the primary statutory tools for protecting the integrity of the securities marketplace").

Imaging's failure to file timely periodic reports for almost a year is, under these standards, a very serious matter. This is especially true given that the repeated missed filings occurred during a time when: (1) the company and its top management were facing fraud allegations based on statements in previous public filings (*See* Section II at ¶¶ 11-16); (2) a wholesale change in management occurred as a result of the settlement of that lawsuit (*Id.*); and (3) the company was publicly acknowledging financial problems (*See* Section II at ¶¶ 7-8, 17). As the Commission has held, "[t]his is precisely the kind of material information that must be disclosed on a timely basis under Exchange Act Section 13 to ensure fair dealing in a company's securities." *China-Biotics*, 2013 WL 5883342 at *11 (revoking company's registration in a 12(j) proceeding in part because the company failed to make filings during a time involving "significant changes to the company's financial results, changes to its business model, turnover in management, and major financial investments").

Similarly here, investors in Imaging were deprived of current and accurate financial and other information about the company and the status of its sole product at a very crucial time. This is serious, and the first *Gateway* factor therefore justifies revocation.

2. Imaging's Violations Are Recurrent

Imaging's violations of Exchange Act Section 13(a) and Rules 13a-1 and 13a-13 are plainly recurrent. Prior to the Commission instituting this proceeding, the company had missed three consecutive filings, and it has since not made a fourth. Imaging's post-institution filing

failure is appropriate for the Law Judge to consider in determining sanctions. *China-Biotics*, 2013 WL 5883342 at *11 ("[n]or do we agree that only the company's pre-OIP filing record should be considered" and noting that even after the Commission instituted the OIP the respondent in that case continue to be delinquent in its filings).

As the Commission noted in *China-Biotics*: "Timely filing of *each* report is statutorily required. Exchange Act Section 12(j) does not require a minimum number of missed filings before an administrative proceeding may be brought or before revocation may be considered." *Id.* (emphasis added). Under that standard, the Commission and Law Judges have revoked registration for fewer or a similar number of delinquent filings than in this case. *In the Matter of IAC Holdings, Inc.*, AP File No. 3-13431, 2009 WL 1138820 at *1 (Order Making Findings And Revoking Registration By Default, April 28, 2009) (revoking registration for two delinquent filings); *In the Matter of iBIZ Technology Corp.*, AP File No. 3-12207, 2006 WL 1675913 at *2 (Init. Dec. June 16, 2006) (revoking registration after one missed 10-K and two missed 10-Q reports); *In the Matter of Freedom Golf Corp.*, AP File No. 3-11082, 2003 WL 21106567 at *2 (Init. Dec. May 15, 2003) (revoking registration after two missed filings).

Following those cases, Imaging's failure to make three required filings before institution of the OIP and one afterwards is recurrent, and justifies revocation of the company's securities registration.

3. Imaging's Degree Of Culpability Supports Revocation

Culpability is not tantamount to scienter, and violation of Section 13(a) and the corresponding rules do not require a finding of scienter. Nonetheless, in *Gateway*, the Commission found the delinquent issuer evidenced a high degree of culpability because it knew of its reporting

obligations yet failed to file its periodic reports. *Gateway*, 2006 WL 1506286 at *5. *See also Appiant Technologies,* 2010 WL 4732979 at *5 ("Concerning culpability, the record shows that Cobalis knew of its reporting obligations but failed to comply with them"); *Markland Technologies*, 2008 WL 5221033 at *4 (finding culpability where respondent failed "to obtain and devote sufficient resources to enable it to file past-due and future reports").

Here, Imaging has acknowledged its obligation to make timely periodic filings in its Answer, as well as its failure to make them. Answer at ¶¶ II.1-4. *See also* Exhibit 4, Form 8-K dated Sept. 30, 2013, in which Imaging acknowledged it could not make its required Form 10-K annual filing. Furthermore, the company has acknowledged not filing any Forms 12b-25 explaining its failure to make required filings. Answer at ¶ II.1. Not filing a Form 12b-25 may be an aggravating factor suggesting revocation as a sanction in a Section 12(j) proceeding. *China-Biotics*, 2013 WL 5883342 at *11; *In the Matter of Calais Resources, Inc.*, AP File No. 14271, 2012 WL 2499349 at *4 (Comm'n Opin. June 29, 2012) (noting respondent had failed to file any Forms 12b-25 in connection with its delinquent reports).

Finally, as discussed in Section II above, Imaging did not respond to the delinquency letter the Division of Corporation Finance sent to the company. Thus, its degree of culpability is high, and also justifies revocation as a sanction.

4. Imaging Has Made No Attempt To Remedy Past Violations

Although its reports are now behind by more than a year, Imaging has not provided the Law Judge with evidence of any efforts it has made to remedy the situation. It contends it is "in the process of privately raising the capital necessary to implement its business plan and provide the funding necessary for the completion of the delinquent reports," and believes it can file them in the

next three months. Answer at ¶ III.[2] Beyond that statement, Imaging has offered no details of how it expects to obtain the funding to do all the things necessary to complete four past-due filings, including hiring an auditor, obtaining audited financial statements, and drafting and completing the detailed Forms 10-K and 10-Q in such a short time period. Given the company's ongoing financial problems, which according to Linda Grable's investigative testimony date back at least six years, its statement that it expects to obtain the necessary financing rings hollow.

Furthermore, even if it were to obtain the necessary financing and file its four past-due reports in two or three months, revocation would still be an appropriate sanction. The Commission has held that even where a delinquent issuer becomes current in its filings while a Section 12(j) proceeding is ongoing, revocation may be appropriate. Recently, in *Absolute Potential*, the Commission upheld the Law Judge's decision to revoke the respondent's registration even though it had filed *20* past-due reports and become current in its filings while the administrative proceeding was pending. *Absolute Potential*, 2014 WL 1338256 at *6-*8. In so holding, the Commission stated:

> We have stressed the "significant policy objectives" the reporting requirements "are intended to serve," providing the public, particularly current and prospective shareholders, with material, timely, and accurate information about an issuer's business." "Those requirements are 'the primary tool[s] which Congress has fashioned for the protection of investors from negligent, careless, and deliberate misrepresentations in the sale of stock and securities.'" It would be contrary to the public interest to allow Absolute to continue to have its securities registered with the Commission when its conduct creates substantial reason to doubt that it will provide investors with timely, accurate, and material information in the future. Revoking Absolute's registration also will serve the public interest by deterring Absolute and other issuers from refusing to comply with the reporting requirements until they are threatened with imminent revocation by a Commission enforcement action.

[2] Imaging made that statement in its Answer filed on May 23, 2014. Almost another month has passed; so the company would now have the Law Judge conclude it can complete the filings in two months.

Id. at * 8 (footnotes omitted).

Here, where Imaging has not filed any delinquent reports and made no credible assurances that it can, revocation is appropriate. This is all the more true because Imaging's failure to file its periodic reports when they were due deprived investors of *timely* and accurate information about the company. As discussed in Sections II and III.B.1 above, timeliness was crucial in this case because of the company's ongoing financial problems and the pending fraud charges against the company and its two top officers. For all those reasons, Imaging's lack of effort to remedy past violations justifies revocation.

5. Imaging Cannot Assure The Law Judge There Will Be No Future Violations

For the same reasons as discussed in the immediately preceding section, Imaging cannot provide credible assurances against future reporting violations. Accordingly, all five *Gateway* factors weigh in favor of the Law Judge revoking Imaging's securities registration.

6. A Three-Month Suspension Would Not Serve The Public Interest

The company has suggested in its Answer that the Law Judge should only suspend its registration for three months while it becomes current in its filings. As discussed above, there is no guarantee Imaging will become current during that time, and, even if it does, revocation is still an appropriate sanction now. *Absolute Potential*, 2014 WL 1338256 at *6-*8.

Imaging's statement that revocation would harm *its* shareholders is not the proper standard for the Law Judge to use. As the Commission stated in *Absolute Potential*:

> We have held repeatedly, however, that "[t]he extent of any harm that may result to existing shareholders [from revocation] cannot be the determining factor in our analysis" rather, "[i]n evaluating what is necessary or appropriate to protect investors, 'regard must be had not only for existing stockholders of the issuer, but also for potential investors.'" All investors in the marketplace, both current and prospective, were deprived of timely reports . . . .

Id. at *6. Furthermore, if the Law Judge were to suspend Imaging's registration for three months and the company were not to become current, the Law Judge would not have the ability to revisit the sanction and convert it to a revocation. *In the Matter of Alyn Corp., et al.,* AP File No. 13881, 2010 WL 3492161 at *5 (Init. Dec. Sept. 7, 2010). The Commission would have to institute a new proceeding. That would not be a judicious use of resources. The need for finality in Commission administrative proceedings dictates revoking Imaging's registration now.

IV. Conclusion

For all of the foregoing reasons, the Division asks the Law Judge to grant its motion for summary disposition and revoke each class of Imaging's securities that are registered with the Commission under Exchange Act Section 12.

Respectfully submitted,

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UNITED STATES OF AMERICA

SECURITIES AND EXCHANGE COMMISSION

EXHIBIT 1(A)

ATTESTATION

I HEREBY ATTEST

that:

A diligent search has this day been made of the records and files of this Commission and the records and files do not disclose that any Form 10-K for the year ending June 30, 2013, has been received in this Commission, under the name of Imaging Diagnostic Systems, Inc., pursuant to the provisions of any of the Acts administered by the Commission.

on file in this Commission

05/30/2014

Date

AIMEE PRIMEAUX

Digitally signed by AIMEE PRIMEAUX
DN: c=US, o=U.S. Government, ou=Securities and Exchange Commission, cn=AIMEE PRIMEAUX, 0.9.2342.19200300.100.1.1=50001002083151
Date: 2014.05.30 10:25:39 -04'00'

Aimée Primeaux, Branch Chief

It is hereby certified that the Secretary of the U.S. Securities and Exchange Commission, Washington, DC, which Commission was created by the Securities Exchange Act of 1934 (15 U.S.C. 78a et seq.) is official custodian of the records and files of said Commission and was such official custodian at the time of executing the above attestation, and that he/she, and persons holding the positions of Deputy Secretary, Assistant Director, Records Officer, Branch Chief of Records Management, and the Program Analyst for the Records Officer, or anyone of them, are authorized to execute the above attestation.

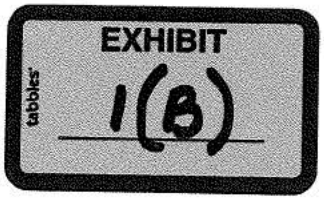
For the Commission

Kevin M. O'Neill

Deputy Secretary

UNITED STATES OF AMERICA

SECURITIES AND EXCHANGE COMMISSION



ATTESTATION

I HEREBY ATTEST

that:

A diligent search has this day been made of the records and files of this Commission and the records and files do not disclose that any Form 10-Q for the quarter ending September 30, 2013, has been received in this Commission, under the name of Imaging Diagnostic Systems, Inc., pursuant to the provisions of any of the Acts administered by the Commission.

on file in this Commission

05/30/2014

Date

AIMEE PRIMEAUX

Digitally signed by AIMEE PRIMEAUX
DN: c=US, o=U.S. Government, ou=Securities and Exchange Commission, cn=AIMEE PRIMEAUX, 0.9.2342.19200300.100.1.1=50001002083151
Date: 2014.05.30 10:24:35 -04'00'

Aimée Primeaux, Branch Chief

It is hereby certified that the Secretary of the U.S. Securities and Exchange Commission, Washington, DC, which Commission was created by the Securities Exchange Act of 1934 (15 U.S.C. 78a et seq.) is official custodian of the records and files of said Commission and was such official custodian at the time of executing the above attestation, and that he/she, and persons holding the positions of Deputy Secretary, Assistant Director, Records Officer, Branch Chief of Records Management, and the Program Analyst for the Records Officer, or anyone of them, are authorized to execute the above attestation.

For the Commission

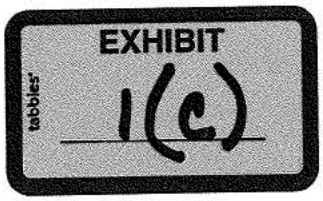
Kevin M. O'Neill

Deputy Secretary

SEC 334 (9-12)

UNITED STATES OF AMERICA

SECURITIES AND EXCHANGE COMMISSION



ATTESTATION

I HEREBY ATTEST

that:

A diligent search has this day been made of the records and files of this Commission and the records and files do not disclose that any Form 10-Q for the quarter ending December 31, 2013, has been received in this Commission, under the name of Imaging Diagnostic Systems, Inc., pursuant to the provisions of any of the Acts administered by the Commission.

on file in this Commission

05/30/2014

Date

AIMEE PRIMEAUX

Digitally signed by AIMEE PRIMEAUX
DN: c=US, o=U.S. Government, ou=Securities and Exchange Commission, cn=AIMEE PRIMEAUX, 0.9.2342.19200300.100.1.1=50001002083151
Date: 2014.05.30 10:22:46 -04'00'

Aimée Primeaux, Branch Chief

It is hereby certified that the Secretary of the U.S. Securities and Exchange Commission, Washington, DC, which Commission was created by the Securities Exchange Act of 1934 (15 U.S.C. 78a et seq.) is official custodian of the records and files of said Commission and was such official custodian at the time of executing the above attestation, and that he/she, and persons holding the positions of Deputy Secretary, Assistant Director, Records Officer, Branch Chief of Records Management, and the Program Analyst for the Records Officer, or anyone of them, are authorized to execute the above attestation.

For the Commission

Kevin M. O'Neill

Deputy Secretary

SEC 334 (9-12)

UNITED STATES OF AMERICA

SECURITIES AND EXCHANGE COMMISSION

ATTESTATION

EXHIBIT 2

I HEREBY ATTEST

that:

A diligent search has this day been made of the records and files of this Commission and the records and files do not disclose that any Form 10-Q for the quarter ending March 31, 2014, has been received in this Commission, under the name of Imaging Diagnostic Systems, Inc., pursuant to the provisions of any of the Acts administered by the Commission.

on file in this Commission

05/30/2014

Date

AIMEE PRIMEAUX

Digitally signed by AIMEE PRIMEAUX
DN: c=US, o=U.S. Government, ou=Securities and Exchange Commission, cn=AIMEE PRIMEAUX, 0.9.2342.19200300.100.1.1=50001002083151
Date: 2014.05.30 09:05:33 -04'00'

Aimée Primeaux, Branch Chief

It is hereby certified that the Secretary of the U.S. Securities and Exchange Commission, Washington, DC, which Commission was created by the Securities Exchange Act of 1934 (15 U.S.C. 78a et seq.) is official custodian of the records and files of said Commission and was such official custodian at the time of executing the above attestation, and that he/she, and persons holding the positions of Deputy Secretary, Assistant Director, Records Officer, Branch Chief of Records Management, and the Program Analyst for the Records Officer, or anyone of them, are authorized to execute the above attestation.

For the Commission

Kevin M. O'Neill

Deputy Secretary

SEC 334 (9-12)

UNITED STATES OF AMERICA

SECURITIES AND EXCHANGE COMMISSION

EXHIBIT 3 tables

ATTESTATION

I HEREBY ATTEST

that:

A diligent search has this day been made of the records and files of this Commission and the records and files do not disclose that any Forms 12B-25 have been received in this Commission, under the name of Imaging Diagnostic Systems, Inc., pursuant to the provisions of any of the Acts administered by the Commission.

on file in this Commission

05/30/2014

Date

AIMEE PRIMEAUX

Digitally signed by AIMEE PRIMEAUX
DN: c=US, o=U.S. Government, ou=Securities and Exchange Commission, cn=AIMEE PRIMEAUX, 0.9.2342.19200300.100.1.1=50001002083151
Date: 2014.05.30 10:21:36 -04'00'

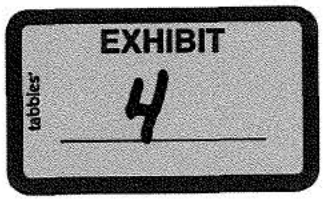
Aimée Primeaux, Branch Chief

It is hereby certified that the Secretary of the U.S. Securities and Exchange Commission, Washington, DC, which Commission was created by the Securities Exchange Act of 1934 (15 U.S.C. 78a et seq.) is official custodian of the records and files of said Commission and was such official custodian at the time of executing the above attestation, and that he/she, and persons holding the positions of Deputy Secretary, Assistant Director, Records Officer, Branch Chief of Records Management, and the Program Analyst for the Records Officer, or anyone of them, are authorized to execute the above attestation.

For the Commission

Kevin M. O'Neill

Deputy Secretary



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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **September 30, 2013**

Imaging Diagnostic Systems, Inc.

(Exact name of registrant as specified in its charter)

Florida	**0-26028**	[redacted]
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification Number)

5307 NW 35th Terrace
Fort Lauderdale, Florida 33309
(Address of principal executive offices, including zip code)

(954) 581-9800
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01 Other Events

On September 30, 2013, Imaging Diagnostic Systems, Inc. (the "Company") was unable to file its Annual Report on Form 10-K for the fiscal year ending June 30, 2013 due to its inability to pay the costs associated with such filing. These costs include the fee for the independent registered public accounting firm to conduct the annual audit, the fee for legal review, and the cost of the XBRL filing with the Securities and Exchange Commission's EDGAR system.

While the Company is seeking strategic funding, no assurance can be made that such funding will be obtained. As of the date of this Current Report, a date when the Form 10-K can be filed cannot be estimated.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Current Report to be signed on its behalf by the undersigned hereunto duly authorized.

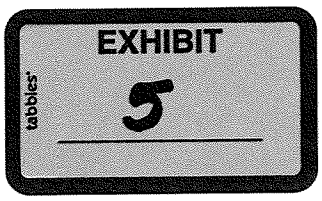
IMAGING DIAGNOSTIC SYSTEMS, INC.

Date: September 30, 2013

By: */s/ Linda B. Grable*
Name: Linda B. Grable
Title: Chief Executive Officer

DIVISION OF
CORPORATION FINANCE

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



March 18, 2014

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Linda B. Grable
Chief Executive Officer
Imaging Diagnostic Systems, Inc.
5307 NW 35th Terrace
Fort Lauderdale, FL 33309

Re: Imaging Diagnostic Systems, Inc.
File No. 0-26028

Dear Ms. Grable:

We are writing to address the reporting responsibilities under the Securities Exchange Act of 1934 of the referenced company. For ease of discussion in this letter, we will refer to the referenced company as the "Registrant".

It appears that the Registrant is not in compliance with its reporting requirements under Section 13(a) of the Securities Exchange Act of 1934. If the Registrant is in compliance with its reporting requirements, please contact us (through the contact person specified below) within fifteen days from the date of this letter so we can discuss the reasons why our records do not indicate that compliance. If the Registrant is not in compliance with its reporting requirements, it should file all required reports within fifteen days from the date of this letter.

If the Registrant has not filed all required reports within fifteen days from the date of this letter, please be aware that the Registrant may be subject, without further notice, to an administrative proceeding to revoke its registration under the Securities Exchange Act of 1934. This administrative proceeding would be brought by the Commission's Division of Enforcement pursuant to Section 12(j) of the Securities Exchange Act of 1934. If the Registrant's stock is trading, it also may be subject to a trading suspension by the Commission pursuant to Section 12(k) of the Securities Exchange Act of 1934.

Finally, please consider whether the Registrant is eligible to terminate its registration under the Securities Exchange Act of 1934. If the Registrant is eligible to terminate its registration, it would do so by filing a Form 15 with the Commission. While the filing of a Form 15 may cease the Registrant's on-going requirement to file periodic and current reports, it would **not** remove the Registrant's obligation to file all reports required under Section 13(a) of the Securities Exchange Act of 1934 that were due on or before the date the Registrant filed its Form 15. Again, if the Registrant is eligible to terminate its registration under the Securities Exchange Act of 1934, please note that the filing of a Form 15 would not remove the Registrant's requirement to file delinquent Securities Exchange Act of 1934 reports – the Registrant would still be required to file with the Commission all periodic reports due on or before the date on which the Registrant filed a Form 15.

If you should have a particular question in regard to this letter, please contact the undersigned at (202) 551-3245 or by fax at (202) 772-9207.

Sincerely,

Marva D. Simpson
Special Counsel
Office of Enforcement Liaison
Division of Corporation Finance

SENDER: *COMPLETE THIS SECTION*

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Linda B. Grable
Chief Executive Officer
Imaging Diagnostic Systems, Inc.
5307 NW 35th Terrace
Fort Lauderdale, FL 33309

COMPLETE THIS SECTION ON DELIVERY

A. Signature
X [signature] ☐ Agent ☐ Addressee

B. Received by (Printed Name) Allen Schwartz | C. Date of Delivery 3-27-14

D. Is delivery address different from item 1? ☐ Yes
If YES, enter delivery address below: ☐ No

3. Service Type
☒ Certified Mail ☐ Express Mail
☐ Registered ☐ Return Receipt for Merchandise
☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? *(Extra Fee)* ☐ Yes

2. Article Number
(Transfer from service label) 7012 1640 0000 8954 1817

PS Form 3811, February 2004 Domestic Return Receipt 102595-02-M-1540

UNITED STATES POSTAL SERVICE

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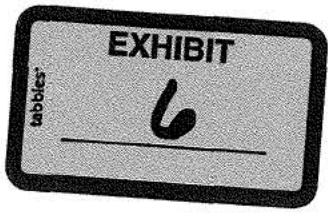
U.S. Securities & Exchange Commission
100 F Street NE
Washington, DC 20549

Marva D. Simpson – Mail Stop 3628

10-Q 1 form10q_033113.htm CURRENT REPORT ON FORM 10-Q



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

FORM 10-Q

[Mark One]

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

For the quarterly period ended March 31, 2013

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____to_____

Commission file number: 0-26028

IMAGING DIAGNOSTIC SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Florida	[redacted]
(State of Incorporation)	(IRS Employer Ident. No.)
5307 NW 35th Terrace, Fort Lauderdale, FL	**33309**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number: (954) 581-9800

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed 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 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.

☐ Large accelerated filer ☐ Accelerated filer ☐ Non Accelerated filer ☒ Smaller reporting company (Do not check if a smaller 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 ☒

The number of shares outstanding of each of the issuer's classes of equity as of May 15, 2013: 2,124,402,540 shares of common stock, no par value; and 20 shares of Series L convertible preferred stock outstanding.

IMAGING DIAGNOSTIC SYSTEMS, INC.
(A Development Stage Company)

PART I - FINANCIAL INFORMATION

PART II - OTHER INFORMATION

"We", "Us", "Our" and "IDSI" unless the context otherwise requires, means Imaging Diagnostic Systems, Inc.

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IMAGING DIAGNOSTIC SYSTEMS, INC.
(A Development Stage Company)
Balance Sheets

Assets

	Mar. 31, 2013	June 30, 2012
	(Unaudited)	*
Current assets:		
Cash	$ 31,707	$ 1,623
Accounts receivable, net of allowances for doubtful accounts of $1,088 and $18,750, respectively	3,263	56,250
Inventory	242,888	246,020
Prepaid expenses	25,524	24,124
Total current assets	303,382	328,017
Property and equipment, net	119,939	131,152
Intangible assets, net	76,897	102,530
Total assets	$ 500,218	$ 561,699

Liabilities and Stockholders' (Deficit)

Current liabilities:		
Accounts payable and accrued expenses	$ 1,745,472	$ 1,728,338
Accrued payroll taxes and penalties	1,324,453	1,489,640
Customer deposits	142,563	142,563
Short-term derivative liability	611,940	961,058
Short-term debt, net of debt discount of $535,884 and $156,539, respectively	1,316,603	1,657,223
Total current liabilities	5,141,031	5,978,822
Long-Term liabilities:		
Long-term convertible debt, net of debt discount of $2,778 and $60,553, respectively	9,485	55,645
Total long-term liabilities	9,485	55,645
Convertible preferred stock (Series L), 9% cumulative annual dividend, no par value, 20 and 20 shares issued, respectively	200,000	200,000
Stockholders' (Deficit):		
Preferred stock, Series P, no par value, 58 and 55 shares issued, respectively	-	-
Preferred stock, Series Q, $.001 par value, 51 and 51 shares issued, respectively	1	1
Common stock	110,795,188	109,743,826
Common stock - Debt Collateral	(73,970)	(73,970)
Additional paid-in capital	5,560,413	5,630,411
Deficit accumulated during development stage	(121,131,930)	(120,973,036)
Total stockholders' (Deficit)	(4,850,298)	(5,672,768)

Total liabilities and stockholders' (Deficit)	$ 500,218	$ 561,699

* Derived from audited financial statements.

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

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IMAGING DIAGNOSTIC SYSTEMS, INC.
(A Development Stage Company)
(Unaudited)
Condensed Statements of Operations

	Nine Months Ended March 31,		Three Months Ended March 31,		Since Inception (12/10/93) to
	2013	2012	2013	2012	Mar. 31, 2013
Net Sales	$ 27,238	$ 211,720	$ 1,238	$ 163,200	$ 2,618,740
Gain on sale of fixed assets	-	-	-	-	2,794,565
Cost of Sales	4,189	35,895	517	29,821	983,966
Gross Profit	23,049	175,825	721	133,379	4,429,339
Operating Expenses:					
General and administrative	701,702	1,854,225	263,025	442,004	64,586,118
Research and development	115,082	527,634	33,002	127,482	24,075,998
Sales and marketing	83,388	380,526	31,241	95,652	10,007,792
Inventory valuation adjustments	8,108	20,383	1,927	5,578	4,975,015
Depreciation and amortization	29,345	42,147	9,782	12,317	3,484,580
Amortization of deferred compensation	-	-	-	-	4,064,250
	937,625	2,824,915	338,977	683,033	111,193,753
Operating Loss	(914,576)	(2,649,090)	(338,256)	(549,654)	(106,764,414)
Interest income	-	383	-	-	311,217
Other income	73,330	154,174	18,704	31,261	1,285,429
Other income - LILA Inventory	-	-	-	-	(69,193)
Derivative expense	-	-	-	-	(64,524)
Change in fair value of derivative liability	1,337,298	1,484,827	297,077	399,170	2,438,540
Interest expense	(654,945)	(1,091,158)	(291,596)	(196,828)	(11,421,225)
Net Income (Loss)	(158,893)	(2,100,864)	(314,071)	(316,051)	(114,284,170)
Dividends on cumulative Pfd. stock:					
From discount at issuance	-	-	-	-	(5,402,713)
Earned	-	-	-	-	(1,445,047)
Net Income (Loss) applicable to common shareholders	$ (158,893)	$ (2,100,864)	$ (314,071)	$ (316,051)	$(121,131,930)
Net Income (Loss) per common share:					
Basic and diluted	$ (0.0038)	$ (0.0018)	$ (0.0031)	$ (0.0002)	$ (56.76)
Weighted average number of common shares outstanding:					
Basic and diluted	41,814,954	1,171,588,914	100,435,484	1,476,755,676	2,133,953

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

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IMAGING DIAGNOSTIC SYSTEMS, INC.
(A Development Stage Company)
(Unaudited)
Condensed Statement of Cash Flows

	Nine Months Ended March 31,		From Inception December 10, 1993 to March 31,
	2013	**2012**	**2013**
Cash flows from operations:			
Net Income (Loss)	$ (158,893)	$(2,100,864)	$ (114,284,170)
Changes in assets and liabilities	(528,673)	606,513	36,165,394
Net cash used in operations	(687,566)	(1,494,351)	(78,118,776)
Cash flows from investing activities:			
Proceeds from sale of property & equipment	-	-	4,390,015
Capital expenditures	-	-	(7,578,436)
Net cash (used in) investing activities	-	-	(3,188,421)
Cash flows from financing activities:			
Repayment of capital lease obligation	-	-	(50,289)
Other financing activities	717,650	1,306,804	11,067,656
Proceeds from issuance of preferred stock	-	1	18,389,500
Net proceeds from issuance of common stock	-	-	51,932,037
Net cash provided by financing activities	717,650	1,306,805	81,338,904
Net increase (decrease) in cash	30,084	(187,546)	31,707
Cash, beginning of period	1,623	189,135	-
Cash, end of period	$ 31,707	$ 1,589	$ 31,707

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

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IMAGING DIAGNOSTIC SYSTEMS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

We have prepared the accompanying unaudited condensed financial statements of Imaging Diagnostic Systems, Inc. in accordance with generally accepted accounting principles for interim financial information and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the financial statements 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 adjustments, considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 2013 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending June 30, 2013. These condensed financial statements have been prepared in accordance with Financial Accounting Standards guidance for Development Stage Enterprises, and should be read in conjunction with our condensed financial statements and related notes included in our Annual Report on Form 10-K filed on October 15, 2012.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management 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 amount of expenses incurred during the reporting period. Actual results could differ from those estimates.

NOTE 2 - GOING CONCERN

Imaging Diagnostic Systems, Inc. ("IDSI") is a development stage enterprise and our continued existence is dependent upon our ability to resolve our liquidity problems, principally by obtaining additional debt and/or equity financing. IDSI has yet to generate a positive internal cash flow, and until significant sales of our product occur, we are dependent upon debt and equity funding.

We have had cumulative losses since inception that raise doubt about our ability to continue as a going concern. We also have cash used in operations of $687,566 for the nine months ended March 31, 2013 and have negative working capital of $4,837,649 at March 31, 2013. These matters raise substantial doubt about our ability to continue as a going concern. The financial statements do not include any adjustments related to the recovery and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event we cannot continue in existence.

In the event that we are unable to obtain debt or equity financing or we are unable to obtain such financing on terms and conditions acceptable to us, we may have to cease or severely curtail our operations, which would materially impact our ability to continue as a going concern. Management has been able to raise the capital necessary to reach this stage of product development and has been able to obtain funding for capital requirements to date. Recently we have relied on raising additional capital through our new Private Equity Credit Agreement with Southridge Partners II, L.P. ("Southridge") dated January 7, 2010, which replaced the Charlton Agreement and through the issuance of short term promissory notes. We also intend to raise capital through other sources of financing. Since June 2011, we have been unable to draw from this new private equity line, consequently, alternative financing is required to continue operations, and there is no assurance that we will be able to obtain alternative financing on commercially reasonable terms. There is no assurance that, if and when Food and Drug Administration ("FDA") marketing clearance is obtained, the CTLM® will achieve market acceptance or that we will achieve a profitable level of operations.

We currently manufacture and sell our sole product, the CTLM® - Computed Tomography Laser Mammography. We are appointing distributors and installing collaboration systems as part of our global commercialization program. We have sold 17 systems as of March 31, 2013; however, we continue to operate as a development stage enterprise

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because we have yet to produce significant revenues. We are attempting to create increased product awareness as a foundation for developing markets through an international distributor network. We may be able to exit reporting as a Development Stage Enterprise upon two successive quarters of sufficient revenues such that we would not have to utilize other funding to meet our quarterly operating expenses.

NOTE 3 - INVENTORY

Inventories included in the accompanying condensed balance sheet are stated at the lower of cost or market as summarized below:

	Mar. 31, 2013	June 30, 2012
	Unaudited	
Raw materials consisting of purchased parts, components and supplies	$ 88,828	$ 87,681
Work-in-process including units undergoing final inspection and testing	28,915	28,915
Finished goods	125,145	129,424
Total Inventory - Net	$ 242,888	$ 246,020

We review our Inventory for parts that have become obsolete or in excess of our manufacturing requirements and our Finished Goods for valuation pursuant to our Accounting Policy for Inventory. For the fiscal year ending June 30, 2012, we reclassified the net realizable value of $11,928 from Clinical Equipment to Consignment Inventory due to a CTLM® system being purchased by one of our Distributors. For the fiscal year ending June 30, 2011, we reclassified the net realizable value of $6,525 of CTLM® systems in Inventory to Clinical equipment. For the fiscal year ending June 30, 2009, we reclassified the net realizable value of $8,591 as this CTLM® system is being used as a clinical system at the University of Florida. For the fiscal year ending June 30, 2008 since such finished goods are being utilized for collecting data for our FDA application, we reclassified the net realizable value of $311,252 of CTLM® systems in Inventory to Clinical equipment.

NOTE 4 - REVENUE RECOGNITION

We recognize revenue in accordance with the guidance provided in SEC Staff Accounting Bulletin No. 104. We sell our medical imaging products, parts, and services to independent distributors and in certain unrepresented territories directly to end-users. Revenue is recognized when persuasive evidence of a sales arrangement exists, delivery has occurred such that title and risk of loss have passed to the buyer or services have been rendered, the selling price is fixed or determinable, and collectibility is reasonable assured. Unless agreed otherwise, our terms with international distributors provide that title and risk of loss passes F.O.B. origin.

To be reasonably assured of collectibility, our policy is to minimize the risk of doing business with distributors in countries which are having difficult financial times by requesting payment via an irrevocable letter of credit ("L/C") drawn on a United States bank prior to shipment of the CTLM®. It is not always possible to obtain an L/C from our distributors so in these cases we must seek alternative payment arrangements which include third-party financing, leasing or extending payment terms to our distributors.

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NOTE 5 - RECENT ACCOUNTING PRONOUNCEMENTS

Various accounting pronouncements that have been issued or proposed by the FASB that do not require adoption until a further date are not expected to have a material impact on the Company's financial statements upon adoption.

NOTE 6 – STOCK-BASED COMPENSATION

The Company relies on the guidance provided by ASC 718, ("Share Based Payments"). ASC 718 requires companies to expense the value of employee stock options and similar awards and applies to all outstanding and vested stock-based awards.

In computing the impact, the fair value of each option is estimated on the date of grant based on the Black-Scholes options-pricing model utilizing certain assumptions for a risk free interest rate; volatility; and expected remaining lives of the awards. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and the Company uses different assumptions, the Company's stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. In estimating the Company's forfeiture rate, the Company analyzed its historical forfeiture rate, the remaining lives of unvested options, and the amount of vested options as a percentage of total options outstanding. If the Company's actual forfeiture rate is materially different from its estimate, or if the Company reevaluates the forfeiture rate in the future, the stock-based compensation expense could be significantly different from what we have recorded in the current period. The impact of applying ASC 718 during the three and nine months March 31, 2013 approximated $0 and $42,671, respectively, in additional compensation expense compared to $8,690 and $13,269 for the corresponding periods in 2012.

The fair value concepts were not changed significantly in ASC 718; however, in adopting this Standard, companies were given the option to choose among alternative valuation models and amortization assumptions. We elected to continue to use the Black-Scholes option pricing model and expense the options as compensation over the requisite service period of the grant. We will reconsider use of the Black-Scholes model if additional information becomes available in the future that indicates another model would be more appropriate, or if grants issued in future periods have characteristics that cannot be reasonably estimated using this model.

For purposes of the following disclosures the weighted-average fair value of options has been estimated on the date of grant using the Black-Scholes options-pricing model. For the quarter ending March 31, 2013, the net income and earnings per share reflect the actual deduction for option expense as a non-cash compensation expense.

Stock-based compensation expense recorded during the three months ended March 31, 2013, was $0 compared to $8,690 from the corresponding period in fiscal 2012.

The weighted average fair value per option at the date of grant for the three months ended March 31, 2013 using the Black-Scholes Option-Pricing Model was $0 due to not having any stock-based compensation expense during the quarter. The weighted average fair value per option at the date of grant for the three months ended March 31, 2013 was $0 due to not having any stock-based compensation expense during the quarter. Assumptions were as follows:

	Three Months Ended March 31,	
	2013	2012
Expected Volatility[1]	N/A	182%
Risk Free Interest Rate	3%	3%
Expected Term[2]	8 yrs	8 yrs

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(1) We calculate expected volatility through a mathematical formula using the last day of the week's closing stock price for the previous 61 weeks prior to the option grant date. The expected volatility for the three months ending March 31, 2013 and 2012 in the table above are weighted average calculations.

(2) We continue to use an expected term assumption of eight years based on guidance provided by SEC Staff Accounting Bulletin 107 and subsequently, Staff Accounting Bulletin 110. These bulletins enable us to use the simplified method for "plain vanilla" options for this calculation.

NOTE 7 - COMMON STOCK ISSUANCES – PRIVATE EQUITY CREDIT AGREEMENT

During the third quarter ending March 31, 2013, we did not draw from our Private Equity Credit Agreement with Southridge Partners II LP ("Southridge"). Subsequent to the end of the second quarter, we did not initiate any put notices from our Private Equity Credit Agreement with Southridge through the date of this report.

NOTE 8 – DEBT DISCOUNT

We recorded interest expense to amortize the debt discount in the amount of $263,724 for the quarter ending March 31, 2013, which relates to all of the outstanding Convertible Short-Term Notes.

In connection with the sale of a Convertible Promissory Note Agreement on February 23, 2011, with an unaffiliated third party, JMJ Financial (the "Lender" or "JMJ"), relating to a private placement of a total of up to $1,800,000 in principal amount of a Convertible Promissory Note (the "Note") providing for advances of a gross amount of $1,600,000 in seven tranches, we recorded interest expense to amortize the debt discount in the amount of $833 during the quarter ending March 31, 2013.

There remains a total of $538,662 of debt discount yet to be amortized as of March 31, 2013.

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NOTE 9 – SHORT-TERM DEBT

From November 10, 2009 to March 31, 2013 we borrowed $4,426,891 in the aggregate from 20 unaffiliated third party investors.

In November 2009, we borrowed a total of $237,500 from four private investors pursuant to short-term promissory notes. These notes were due and payable in the amount of principal plus 20% premium, so that the total amount due was $285,000. In addition, we issued to the investors 70 shares of restricted common stock for each $1 lent so that a total of 16,625,000 shares of stock were issued to the investors. The aggregate fair market value of the 16,625,000 shares of stock when issued was $465,500. $30,000 principal on one of the notes was sold to OTC Global Partners in September 2012. $10,000 premium on one of the notes was sold to WHC Capital LLC on March 22, 2013. As of March 31, 2013, we have repaid an aggregate principal and premium in the amount of $148,500 on these short-term notes and owe a balance of $196,300 of which $70,000 is the principal remaining. The original due date of December 21, 2009, was first extended to February 28, 2010, with a second extension to June 15, 2010, a third extension to September 30, 2010 and a fourth extension to October 31, 2010. Further extensions of the $100,000 note were made through June 30, 2012 for 3% additional premium per month. However, as of June 30, 2012, we are accruing this 3% additional premium per month but have not yet received an extension of maturity date and are in technical default of the note. We are negotiating with the lender to extend the maturity date. In connection with all of the extensions, a total of $89,800 of additional premium was accrued as of March 31, 2013.

In December 2009, we borrowed a total of $400,000 from a private investor pursuant to three short-term promissory notes. These notes were payable from March 10 through March 15, 2010 in the amount of principal plus 15% premium, so that the total amount due was $460,000. In addition, we issued to the investor 48,000 shares of restricted common stock as collateral. These shares are to be returned and cancelled upon payment of the notes. The original due date of March 15, 2010 was first extended to June 15, 2010, with a second extension to September 30, 2010 and a third extension to October 31, 2010. Further extensions of the notes were made through June 30, 2012 for 3% additional premium per month on each note. We have not yet received an extension of maturity date and are in technical default of the note. We are negotiating with the lender to extend the maturity date. In connection with these extensions a total of $284,420 of additional premium was accrued for the December 2009 notes as the date of this report. In April 2011, Southridge purchased a total of $200,000 in principal value of promissory notes from the private investor. All conversions before December 10, 2012, were adjusted to reflect a 1 for 500 reverse split effective that date. As of March 31, 2013, Southridge has converted $180,515 principal and $55,600 premium into 2,257,052 shares of which 41,493 shares of our common stock that was previously issued as collateral.

On December 12, 2012, the private investor sold $180,769 of a promissory note originally dated December 15, 2009 to ASC Recap. The terms of the original note remain the same except that the holder may elect at any time to convert any part or all of the $180,769 into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date. We reserved 18,000,000 shares of our common stock in connection with this transaction.

On January 3, 2013, Magna Group, LLC ("Magna") purchased $100,000 principal of a Promissory Note dated December 10, 2009 from a private investor. A new Convertible Promissory Note was issued to Magna on January 3, 2013 with a maturity date of September 3, 2013. Interest will accrue at 12% per annum. Any amount on principal or interest that remains unpaid when due shall bear an interest rate of 22% from the due date until paid. Magna may elect at any time to convert any part or all of the $100,000 plus interest into shares of our common stock at an Initial Conversion Price equal to 45% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice. We reserved 50,000,000 shares of our common stock in connection with this transaction.

On January 18, 2013, Redwood Management LLC ("Redwood") purchased $100,000 principal of a $100,000 Promissory Note originally dated December 14, 2009 from a private investor. Redwood may elect at any time to convert any part or all of the $100,000 into shares of our common stock at an Initial Conversion Price equal to 45% of the lowest closing bid price during the 15 trading days immediately prior to the date of the conversion notice. We reserved 100,000,000 shares of our common stock in connection with this transaction.

On January 8, 2010, we borrowed a total of $600,000 from a private investor pursuant to two short-term promissory notes. These notes were payable April 6, 2010 in the amount of principal plus 15% premium, so that the total amount due was $690,000. In addition, we issued to the investor 62,727 shares of restricted common stock as collateral. These shares are to be returned and cancelled upon payment of the notes. The original due date of April 6, 2010 was first extended to June 15, 2010, with a second extension to September 30, 2010 and a third extension to October 31, 2010. Further extensions of the notes were made through July 31, 2011 for 3% additional premium per month on each note. In January 2011, Southridge purchased a total of $600,000 in principal value of promissory notes from the private investor. As of the date of this report, Southridge has fully converted $600,000 principal and $340,099 premium into 768,912 shares of our common stock of which 62,112 shares were collateral shares and 706,800 new shares were issued pursuant to Rule 144. Although we were in technical default of these two notes, the holder, Southridge elected to convert these notes into common shares. In connection with these prior extensions through June 30, 2012 and the accrual of the additional premiums through May 31, 2012, a total of $255,647 of additional premium was accrued for the January 2010 notes as of June 30, 2012.

On February 25, 2010, we borrowed $350,000 from a private investor pursuant to a short-term promissory note. We issued to the investor 35 shares of Series L Convertible Preferred Stock as collateral. This note had a maturity date of April 30, 2010; however, the investor gave us notice of conversion to the collateral shares on March 31, 2010. The Note was cancelled upon this conversion. The 35 shares of Series L Convertible Preferred Stock accrue dividends at an annual rate of 9% and are convertible into an aggregate of 16,587,690 shares of common stock (473,934 shares of common stock for each share of preferred stock). Pursuant to the Certificate of Designation, Rights and Preferences for the Series L Convertible Preferred Stock, we are obligated to reduce the conversion price and reserve additional shares for conversion if we sold or issued common shares below the price of $.0211 per share (the market price on the date of issuance of the Preferred Stock). In October 2010, we obtained a waiver from the private investor holding the 35 shares of Series L Convertible Preferred Stock in which the investor agreed to convert no more than the 16,587,690 common shares currently reserved as we do not have sufficient authorized common shares to reserve for further conversions pursuant to the Certificate of Designation, Rights and Preferences. The investor agreed to a conversion floor price of $.015, which required us to reserve an additional 13,491 common shares.

On January 6, 2011, the investor converted 15 shares of the Series L Convertible Preferred Stock into 20,000 shares of common stock. As of the date of this report, the investor holds 20 shares of the Series L Convertible Preferred Stock.

On December 13, 2010, we borrowed a total of $60,000 from a private investor pursuant to a short-term promissory note. The note is payable on or before January 31, 2011. As consideration for this loan, we were obligated to pay back his principal, $26,400 in premium and issue 6,000 restricted shares of common stock upon the approval by our shareholders of an increase in authorized common stock at our annual meeting to be held on July 12, 2011. On September 9, 2011, we issued the 6,000 common shares pursuant to Rule 144. We received an extension of maturity date to December 31, 2012 for this note. On September 5, 2012, the private investor sold $40,000 principal of the note to SGI Group. On December 17, 2012, the private investor sold the balance of his note totaling $46,400 ($20,000 principal and $26,400 premium) to WHC Capital LLC.

In November and December 2010, we received a total of $145,000 from Southridge pursuant to three short-term promissory notes. All three notes provide for a redemption premium of 15% of the principal amount on or before March 31, 2011. Interest will accrue at 8% per annum until maturity. Southridge may elect at any time to convert any part or all of the $145,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.01 or (b) 90% of the average of the three lowest

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closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

In January 2011, we received a total of $157,000 from Southridge pursuant to three short-term promissory notes. All three notes provide for a redemption premium of 15% of the principal amount on or before May 31, 2011. Interest will accrue at 8% per annum until maturity. Southridge may elect at any time to convert any part or all of the $157,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.01 or (b) 90% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

In February 2011, we received a total of $115,000 from Southridge pursuant to two short-term promissory notes. Both notes provide for a redemption premium of 15% of the principal amount on or before May 31, 2011. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $115,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.01 or (b) 90% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

In March 2011, we received $60,000 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before May 31, 2011. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $60,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.01 or (b) 90% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

In April 2011, we received $165,000 from Southridge pursuant to two short-term promissory notes. The notes provide for a redemption premium of 15% of the principal amount on or before July 31, 2011. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $165,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.01 or (b) 90% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

In May 2011, we received $80,000 from Southridge pursuant to two short-term promissory notes. The notes provide for a redemption premium of 15% of the principal amount on or before July 31, 2011. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $80,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.01 or (b) 90% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

In July 2011, we received $150,000 from Southridge pursuant to a short-term promissory note. The note provided for a redemption premium of 15% of the principal amount on or before December 31, 2011. We received an extension of maturity date to February 29, 2012 for these notes. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $150,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.01 or (b) 70% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

In August 2011, we received $82,500 from Southridge pursuant to two short-term promissory notes of which the principal on these notes was $100,000 and $7,500, respectively. The $100,000 note provided for a $25,000 original

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issue discount and both notes provided for a redemption premium of 15% of the principal amount on or before December 31, 2011. We received an extension of maturity date to February 23, 2013 for these notes. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $107,500 principal amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.01 or (b) 70% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. The $100,000 and the $7,500 note have been paid in full through the conversion to common stock pursuant to Rule 144.

In August 2011, we received $50,000 from OTC Global Partners, LLC pursuant to a short-term promissory note. The note provided for a redemption premium of 15% of the principal amount on or before March 1, 2012. Interest will accrue at 8% per annum until maturity above and beyond the premium. OTC Global Partners, LLC may elect at any time to convert any part or all of the $50,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.014 or (b) 65% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

In September 2011, we received $133,000 from Southridge pursuant to two short-term promissory notes of which the principal on these notes was $100,000 and $100,000, respectively. One of the $100,000 notes provided for a $33,000 original issue discount and the other $100,000 note provided a $34,000 original issue discount. The notes provided for a redemption premium of 15% of the principal amount on or before December 31, 2011. We received an extension of maturity date to December 31, 2012 for these notes. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $200,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.0075 or (b) 70% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. The $100,000 note has been paid in full through the conversion to common stock pursuant to Rule 144.

In October 2011, we received $67,000 from Southridge pursuant to a short-term promissory note of which the principal on the note was $100,000. The note provides for a $33,000 original issue discount. The note provided for a redemption premium of 15% of the principal amount on or before January 12, 2012. We received an extension of maturity date to December 31, 2012 for this note. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $100,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.0075 or (b) 70% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice.

In October 2011, we received $67,000 from Southridge pursuant to a short-term promissory note of which the principal on the note was $100,000. The note provides for a $33,000 original issue discount. The note provided for a redemption premium of 15% of the principal amount on or before January 26, 2012. We received an extension of maturity date to December 31, 2012 for this note. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $100,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.005 or (b) 70% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In October 2011, we received $78,500 from Asher Enterprises pursuant to a short-term promissory note due on or before July 26, 2012. Interest will accrue at 8% per annum until maturity above and beyond the premium. Asher Enterprises may elect at any time after 180 days to convert any part or all of the $78,500 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 58% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

In November 2011, we received $20,000 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before December 31, 2012. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $20,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 62% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

On November 21, 2011, Southridge sold their May 12, 2011 $60,000 short-term promissory note to Panache Capital, LLC ("Panache"). The terms of the original note remain the same except that the maturity date is now November 21, 2012 and interest will accrue at 10% per annum until maturity above and beyond the premium.

In November 2011, we received $40,000 from Panache pursuant to a short-term promissory note. The note provides a maturity date of November 21, 2012. Interest will accrue at 10% per annum until maturity. Panache may elect at any time to convert any part or all of the $40,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 62% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In November 2011, we received $53,000 from Asher Enterprises pursuant to a short-term promissory note due on or before September 5, 2012. Interest will accrue at 8% per annum until maturity above and beyond the premium. Asher Enterprises may elect at any time after 180 days to convert any part or all of the $53,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 58% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

In December 2011, we received $17,000 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before December 18, 2012. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $17,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 62% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In December 2011, we received $12,000 from an unaffiliated third party investor pursuant to a short-term promissory note. The note provided for a redemption premium of 15% of the principal amount on or before March 8, 2012. Interest will accrue at 10% per annum until maturity above and beyond the premium. On January 6, 2012, we amended a promissory note in the principal amount of $12,000 dated December 9, 2011 held by an unaffiliated third-party investor. The note provided for a redemption premium of 15% of the principal amount on or before March 8, 2012. Interest will accrue at 10% per annum until maturity above and beyond the premium. The amendment provided for the issuance of three (3) restricted shares of Series P Preferred Stock having a stated value of $5,000 per share. These shares, having a total value of $15,000, will be used as collateral for the note held by the investor. We received an extension of maturity to June 4, 2012 for this note. Thereafter, a late fee premium of 1% per month will be due if unpaid. We have not yet received an extension of maturity date and are in technical default of the note. We are negotiating with the lender to extend the maturity date.

In December 2011, we borrowed a total of $21,604 from a private investor pursuant to two short-term promissory notes. The notes provided for a 2% premium per month. One of the notes was payable on or before December 16, 2011 and the other on or before January 6, 2012. We received an extension of maturity date to August 31, 2012 for these notes for 3% additional premium per month on each note.

In January 2012, we received a total of $175,200 from an unaffiliated third party investor pursuant to five short-term promissory notes with a maturity date ranging from March 5, 2012 to March 20, 2012. The notes provided for a

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redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 10% per annum until maturity above and beyond the premium. We issued a total of 38 Series P Preferred Stock to the investor as collateral with a total stated value of $190,000. We received an extension of maturity to June 4, 2012 for these notes. Thereafter, a late fee premium of 1% per month will be due if unpaid. We have not yet received an extension of maturity date and are in technical default of the note. We are negotiating with the lender to extend the maturity date. On March 20, 2013, the private investor sold $57,600 Principal of his $57,600 note to Tangiers Investment Group LLC. The full sale of the note was for $75,969 ($57,600 Principal, $8,640 Premium, $4,032 Late Fee Premium and $5,697 Interest). On March 20, 2013, we entered into a new Promissory Note with Tangiers Capital for $75,969 in Principal with a maturity date of March 19, 2014. Interest will accrue at 15% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $75,969 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In February 2012, we received a total of $42,000 from an unaffiliated third party investor pursuant to two short-term promissory notes with a maturity date ranging from April 13, 2012 to April 30, 2012. The notes provided for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 10% per annum until maturity above and beyond the premium. We issued a total of 9 Series P Preferred Stock to the investor as collateral with a total stated value of $45,000. We received an extension of maturity to June 4, 2012 for these notes. Thereafter, a late fee premium of 1% per month will be due if unpaid. We have not yet received an extension of maturity date and are in technical default of the note. We are negotiating with the lender to extend the maturity date.

On February 23, 2012, Southridge sold their $100,000 short-term promissory note to Panache Capital, LLC ("Panache") of which a balance of $70,000 principal was remaining after Southridge converted $30,000 principal in a debt to equity conversion on February 17, 2012. The terms of the original note remain the same except that the maturity date is now November 21, 2012 and interest will accrue at 10% per annum until maturity above and beyond the premium. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In February 2012, we received $25,000 from Panache pursuant to a short-term promissory note. The note provides a maturity date of February 28, 2013. Interest will accrue at 10% per annum until maturity. Panache may elect at any time to convert any part or all of the $25,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 55% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In March 2012, we received $30,000 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before March 18, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $30,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 62% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In April 2012, we received $11,000 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before December 31, 2012. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $11,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In April 2012, we received $2,500 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before April 25, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any

part or all of the $2,500 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In May 2012, we received a total of $25,000 from an unaffiliated third party investor pursuant to a short-term promissory note with a maturity date of August 2, 2012. The note provides for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 10% per annum until maturity above and beyond the premium. We issued a total of 5 Series P Preferred Stock to the investor as collateral with a total stated value of $25,000. We have not yet received an extension of maturity date and are in technical default of the note. We are negotiating with the lender to extend the maturity date.

In May 2012, we received $8,000 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before May 14, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $8,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In May 2012, we received $13,000 from Linda Grable, our CEO and Chairman of the Board, pursuant to a short-term promissory note. Ms. Grable is deemed an affiliated party. The note provides for a redemption premium of 15% of the principal amount on or before May 21, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. Ms. Grable may elect at any time to convert any part or all of the $13,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In May 2012, we received $32,000 from a private investor pursuant to two short-term promissory notes with a maturity date ranging from May 17, 2013 to May 20, 2013. The notes provides for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $32,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice.

In June 2012, we received $6,672 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before June 17, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $6,672 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In June 2012, we received $14,000 from a private investor pursuant to two short-term promissory notes with a maturity date ranging from June 6, 2013 to June 20, 2013. The notes provides for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $14,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice.

In July 2012, we received $20,100 from a private investor pursuant to four short-term promissory notes with a maturity date ranging from July 9, 2013 to July 24, 2013. The notes provide for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $20,100 Principal Amount of

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the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice.

In August 2012, we received $25,000 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before December 31, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $25,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice. We reserved 50,000,000 shares of our common stock in connection with this loan. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In August 2012, we received $95,000 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before December 31, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $95,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date. We reserved 400,000,000 shares of our common stock in connection with this loan.

On August 20, 2012, Southridge sold $70,000 of their original $100,000 short-term promissory note dated October 12, 2011 to Levin Consulting Group. The terms of the original note remain the same except that the holder may elect at any time to convert any part or all of the $70,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date.

In August 2012, we received $35,000 from Levin Consulting Group pursuant to a short-term promissory note with a maturity date of August 20, 2013. The note provides for a redemption premium of 15% of the principal amount on or before November 18, 2012; 20% on or before December 18, 2012; 25% on or before January 17, 2013; and 30% on or before February 16, 2013. Interest will accrue at 10% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $35,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date.

On August 20, 2012, Southridge sold $30,000 of their original $100,000 short-term promissory note dated October 12, 2011 to SGI Group LLC ("SGI"). The terms of the original note remain the same except that the holder may elect at any time to convert any part or all of the $30,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date.

In August 2012, we received $15,000 from SGI pursuant to a short-term promissory note with a maturity date of August 20, 2013. The note provides for a redemption premium of 15% of the principal amount on or before November 18, 2012; 20% on or before December 18, 2012; 25% on or before January 17, 2013; and 30% on or before February 16, 2013. Interest will accrue at 10% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $15,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest

closing bid price during the five trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date.

In September 2012, we received $29,000 from Southridge pursuant to a short-term promissory note of which the principal on the note was $30,000. The note provides for a $1,000 original issue discount. The note provides for a redemption premium of 15% of the principal amount on or before December 31, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $30,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date. We reserved 150,000,000 shares of our common stock in connection with this loan.

In September 2012, we received $25,000 from Panache pursuant to a short-term promissory note of which the principal on the note was $30,000. The note provides for a $5,000 original issue discount. The note provides for a redemption premium of 15% of the principal amount on or before December 31, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. Panache may elect at any time to convert any part or all of the $30,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date. We reserved 200,000,000 shares of our common stock in connection with this loan.

In September 2012, we received $30,000 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 20% on or before December 17, 2012; 25% on or before March 17, 2013; and 30% on or before June 15, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $30,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date. We reserved 700,000,000 shares of our common stock in connection with this loan.

On September 26, 2012, a private investor sold $30,000 of its original $100,000 short-term promissory note dated November 23, 2009 to OTC Global Partners. The terms of the original note remain the same except that the new note provides for a new redemption premium of 15% of the principal amount on or before September 25, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. OTC Global Partners may elect at any time to convert any part or all of the $30,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date.

In October 2012, we received $20,000 from Panache pursuant to a short-term promissory note. The note provides a maturity date of September 28, 2013. Interest will accrue at 10% per annum until maturity. Any amount on principal or interest that remains unpaid when due, shall bear an interest rate of 22% from the due date until paid. Panache may elect at any time to convert any part or all of the $20,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the initial closing bid price, then the purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date.

In October 2012, we received $38,500 from FLUX Carbon Starter pursuant to a short-term promissory note. The note provides a maturity date of October 3, 2013. We received net proceeds of $33,250 after deductions of $3,500 for legal fees and $1,750 for a finder's fee. Interest will accrue at 10% per annum until maturity. FLUX Carbon Starter may elect at any time to convert any part or all of the $38,500 principal amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the initial closing bid price, then the purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date.

In October 2012, we received $27,000 from Southridge pursuant to a short-term promissory note of which the principal on the note was $40,000 and the maturity date of the note is March 31, 2013. The note provides for a $13,000 original issue discount. The note provides for a redemption premium of 20% on or before January 7, 2013; 25% on or before April 7, 2013; and 30% on or before July 15, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $40,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the initial closing bid price, then the purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date. We reserved 300,000,000 shares of our common stock in connection with this loan.

In October 2012, we received $1,000 from Southridge pursuant to a short-term promissory note. The note provides a maturity date of April 30, 2013. The note provides for a redemption premium of 20% on or before January 22, 2013; 25% on or before April 24, 2013; and 30% after April 24, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $40,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the initial closing bid price, then the purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date. We reserved 300,000,000 shares of our common stock in connection with this loan.

In November 2012, we received $6,250 from SGI Group pursuant to a short-term promissory note of which the principal on the note was $12,500 and the maturity date of the note is May 31, 2013. The note provides for a $6,250 original issue discount. The note provides for a redemption premium of 20% of the principal amount on or before February 10, 2013; 25% on or before May 11, 2013; and 30% after May 11, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $12,500 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the initial closing bid price, then the purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date. We reserved 125,000,000 shares of our common stock in connection with this loan.

In November 2012, we received $6,250 from Star City Capital pursuant to a short-term promissory note of which the principal on the note was $12,500 and the maturity date of the note is May 31, 2013. The note provides for a $6,250 original issue discount. The note provides for a redemption premium of 20% of the principal amount on or before February 10, 2013; 25% on or before May 11, 2013; and 30% after May 11, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $12,500 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the initial closing bid price, then the purchase price shall be adjusted such that the discount shall be taken

from the Closing Bid Price on the clearing date. We reserved 125,000,000 shares of our common stock in connection with this loan.

In November 2012, we received $20,000 from Southridge pursuant to a short-term promissory note of which the principal on the note was $40,000 and the maturity date of the note is May 31, 2013. The note provides for a $20,000 original issue discount. The note provides for a redemption premium of 20% on or before March 27, 2013; 25% on or before June 25, 2013; and 30% after June 25, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $40,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the initial closing bid price, then the purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date. We reserved 400,000,000 shares of our common stock in connection with this loan.

In December 2012, we received $3,000 from a private investor pursuant to two short-term promissory notes with a maturity date ranging from December 5, 2013 to December 9, 2013. The notes provide for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $3,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In December 2012, we received $20,000 from a private investor pursuant to a short-term promissory note with a maturity date of December 19, 2013. The notes provide for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $20,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In December 2012, we received $12,000 from an unaffiliated third party investor pursuant to a short-term promissory note with a maturity date of June 13, 2013. The note provides for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 10% per annum until maturity above and beyond the premium. We issued a total of 3 Series P Preferred Stock to the investor as collateral with a total stated value of $15,000.

In December 2012, we received $15,000 from WHC Capital, LLC pursuant to a short-term promissory note with a maturity date of October 6, 2013. Interest will accrue at 12% per annum until maturity above and beyond the premium. Any amount on principal or interest that remains unpaid when due, shall bear an interest rate of 22% from the due date until paid. The holder may elect at any time to convert any part or all of the $15,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In January 2013, we received $31,500 from Hanover Holdings I, LLC ("Hanover") pursuant to a short-term promissory note. The note provides a maturity date of September 3, 2013. Interest will accrue at 12% per annum. Any amount on principal or interest that remains unpaid when due, shall bear an interest rate of 22% from the due date until paid. Hanover may elect at any time to convert any part or all of the $31,500 plus interest into shares of our common stock at an Initial Conversion Price equal to 45% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice. We reserved 20,000,000 shares of our common stock in connection with this transaction.

On January 3, 2013, Magna Group, LLC ("Magna") purchased $100,000 principal of a Promissory Note dated December 10, 2009 from a private investor. A new Convertible Promissory Note was issued to Magna on January 3, 2013 with a maturity date of September 3, 2013. Interest will accrue at 12% per annum. Any amount on principal or

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interest that remains unpaid when due, shall bear an interest rate of 22% from the due date until paid. Magna may elect at any time to convert any part or all of the $100,000 plus interest into shares of our common stock at an Initial Conversion Price equal to 45% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice. We reserved 50,000,000 shares of our common stock in connection with this transaction.

In January 2013, we received $5,850 from a private investor pursuant to two short-term promissory notes with a maturity date ranging from January 3, 2014 to January 8, 2014. The notes provide for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $5,850 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In January 2013, we received $30,000 from Black Arch Opportunity Fund LP ("Black Arch") pursuant to a short-term promissory note. The note provides a maturity date of November 9, 2013. Interest will accrue at 12% per annum. Any amount on principal or interest that remains unpaid when due, shall bear an interest rate of 22% from the due date until paid. Black Arch may elect at any time to convert any part or all of the $30,000 plus interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice.

In January 2013, we received $25,000 from Redwood Management LLC ("Redwood") pursuant to a $125,000 short-term promissory note dated January 18, 2013. The terms of the note provide that the Redwood will pay $25,000 every 30 days from execution of the note until the entire $125,000 is paid in full. The note provides a maturity date of January 18, 2014. Interest will accrue at 12% per annum on the aggregate unconverted outstanding principal amount. Redwood may elect at any time to convert any part or all of the outstanding balance plus interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the fifteen trading days immediately prior to the date of the conversion notice. We reserved 100,000,000 shares of our common stock in connection with this transaction.

In January 2013, Redwood agreed to purchase five promissory notes held by a private investor totaling $365,688 of which $213,600 in principal and $123,752 in premium; $17,040 is cash redemption premium and $11,296 is interest. Redwood may elect at any time to convert any part or all of the outstanding balance plus interest into shares of our common stock at an Initial Conversion Price equal to 45% of the lowest closing bid price during the fifteen trading days immediately prior to the date of the conversion notice. We reserved 60,000,000 shares of our common stock in connection with this transaction.

In January 2013, we received $19,500 from Hanover Holdings I, LLC ("Hanover") pursuant to a short-term promissory note. The note provides a maturity date of January 23, 2014. Interest will accrue at 12% per annum. Any amount on principal or interest that remains unpaid when due, shall bear an interest rate of 22% from the due date until paid. Hanover may elect at any time to convert any part or all of the $19,500 plus interest into shares of our common stock at an Initial Conversion Price equal to 45% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice. We reserved 12,500,000 shares of our common stock in connection with this transaction.

In January 2013, we received $15,000 from WHC Capital, LLC pursuant to a short-term promissory note with a maturity date of January 25, 2014. Interest will accrue at 12% per annum until maturity above and beyond the premium. Any amount on principal or interest that remains unpaid when due, shall bear an interest rate of 22% from the due date until paid. The holder may elect at any time to convert any part or all of the $15,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In February 2013, we received $7,000 from a private investor pursuant to a short-term promissory note with a maturity date of February 7, 2014. The note provides for a redemption premium of 15% of the principal amount

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upon maturity. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $7,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In February 2013, we received $25,000 from Redwood Management LLC ("Redwood") pursuant to a $125,000 short-term promissory note dated January 18, 2013. The terms of the note provide that the Redwood will pay $25,000 every 30 days from execution of the note until the entire $125,000 is paid in full. The note provides a maturity date of January 18, 2014. Interest will accrue at 12% per annum on the aggregate unconverted outstanding principal amount. Redwood may elect at any time to convert any part or all of the outstanding balance plus interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the fifteen trading days immediately prior to the date of the conversion notice.

In February 2013, we received $15,000 from WHC Capital, LLC pursuant to a short-term promissory note with a maturity date of January 25, 2014. Interest will accrue at 12% per annum until maturity above and beyond the premium. Any amount on principal or interest that remains unpaid when due, shall bear an interest rate of 22% from the due date until paid. The holder may elect at any time to convert any part or all of the $15,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In March 2013, we received $78,500 from Asher Enterprises pursuant to a short-term promissory note due on or before December 5, 2013. We received net proceeds of $75,000 after deductions of $2,500 for legal fees. Interest will accrue at 8% per annum until maturity above and beyond the premium. Asher Enterprises may elect at any time after 180 days to convert any part or all of the $78,500 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 58% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. We reserved 209,000,000 shares of our common stock in connection with this loan.

In March 2013, we received $30,000 from Tangiers Investment Group, LLC ("Tangiers") pursuant to a short-term promissory note due on or before December 5, 2013. We received net proceeds of $25,000 after deductions of $2,500 for legal fees and $2,500 for a consulting fee. Interest will accrue at 15% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $30,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In March 2013, we received $20,000 from JMJ Financial pursuant to a short-term promissory note with a maturity date of March 26, 2014. During the first 90 days of the loan period, interest will be 0%. Interest will accrue at 12% per annum after 90 days until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $20,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to the lower of $0.0016 or 60% of the average of the lowest closing bid price during the 25 trading days immediately prior to the date of the conversion notice. We reserved 500,000,000 shares of our common stock in connection with this loan.

In March 2013, we received $7,500 from Redwood Management LLC ("Redwood") pursuant to a $125,000 short-term promissory note dated January 18, 2013. The terms of the note provide that the Redwood will pay $25,000 every 30 days from execution of the note until the entire $125,000 is paid in full. The note provides a maturity date of January 18, 2014. Interest will accrue at 12% per annum on the aggregate unconverted outstanding principal amount. Redwood may elect at any time to convert any part or all of the outstanding balance plus interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the fifteen trading days immediately prior to the date of the conversion notice.

OID (Original Issue Discount) is included in debt discount and amortized ratably to interest expense over the term of the respective notes to which they relate.

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Debt to Equity Conversions:

On May 11, 2011, Southridge executed a debt to equity conversion of a $80,000 short-term promissory note dated November 11, 2010 plus accrued interest of $3,174. We issued Southridge 22,180 common shares pursuant to Rule 144 based on an agreed exchange price of $3.75 per share. We canceled the $12,000 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On July 13, 2011, Southridge executed a debt to equity conversion of a $14,000 short-term promissory note dated December 16, 2010 plus accrued interest of $641. We issued Southridge 2,928 common shares pursuant to Rule 144 based on an agreed exchange price of $5 per share. We canceled the $2,100 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On July 13, 2011, Southridge executed a debt to equity conversion of a $51,000 short-term promissory note dated December 22, 2010 plus accrued interest of $2,269. We issued Southridge 10,654 common shares pursuant to Rule 144 based on an agreed exchange price of $5per share. We canceled the $7,650 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On July 21, 2011, Southridge executed a debt to equity conversion of a $55,000 short-term promissory note dated January 13, 2011 plus accrued interest of $2,278. We issued Southridge 11,456 common shares pursuant to Rule 144 based on an agreed exchange price of $5 per share. We canceled the $8,250 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On July 21, 2011, Southridge executed a debt to equity conversion of a $22,000 short-term promissory note dated January 19, 2011 plus accrued interest of $882. We issued Southridge 4,576 common shares pursuant to Rule 144 based on an agreed exchange price of $5 per share. We canceled the $3,300 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On August 24, 2011, Southridge executed a debt to equity conversion of a $80,000 short-term promissory note dated January 28, 2011 plus accrued interest of $3,647. We issued Southridge 16,729 common shares pursuant to Rule 144 based on an agreed exchange price of $5 per share. We canceled the $12,000 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On August 24, 2011, Southridge executed a partial debt to equity conversion of a $80,000 short-term promissory note dated February 7, 2011 in which they converted $20,000 principal plus accrued interest of $868. We issued Southridge 4,174 common shares pursuant to Rule 144 based on an agreed exchange price of $5 per share.

On September 27, 2011, Southridge executed a final debt to equity conversion of a $80,000 short-term promissory note dated February 7, 2011 in which they converted the remaining $60,000 principal plus accrued interest of $868. We issued Southridge 16,780 common shares pursuant to Rule 144 based on an agreed conversion price of $3.75 per share. We canceled the $12,000 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On September 27, 2011, Southridge executed a debt to equity conversion of a $35,000 short-term promissory note dated February 15, 2011 plus accrued interest of $1,688. We issued Southridge 9,783 common shares pursuant to Rule 144 based on an agreed conversion price of $3.75 per share. We canceled the $5,250 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On September 27, 2011, Southridge executed a debt to equity conversion of a $60,000 short-term promissory note dated March 31, 2011 plus accrued interest of $2,315. We issued Southridge 16,617 common shares pursuant to Rule 144 based on an agreed conversion price of $3.75 per share. We canceled the $9,000 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On September 28, 2011, we amended the terms of all debt agreements with Southridge Partners II, LP and agreed to amend the conversion terms of the Notes such that the principal portion of the Notes, plus accrued interest, shall be

convertible into shares of our common stock at a conversion price per share equal to the lesser of (a) $3.75 or (b) ninety percent (90%) of the average of the three (3) lowest closing bid prices during the ten (10) trading days immediately prior to the date of the conversion notice.

On October 13, 2011, Southridge executed a debt to equity conversion of a $100,000 short-term promissory note dated April 14, 2011 plus accrued interest of $3,989. We issued Southridge 41,596 common shares pursuant to Rule 144 based on an agreed conversion price of $2.50 per share. We canceled the $15,000 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On November 3, 2011, Southridge executed a debt to equity conversion of a $65,000 short-term promissory note dated April 26, 2011 plus accrued interest of $2,721. We issued Southridge 27,088 common shares pursuant to Rule 144 based on an agreed conversion price of $2.50 per share. We canceled the $9,750 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On November 16, 2011, Southridge executed a debt to equity conversion of a $20,000 short-term promissory note dated May 6, 2011 plus accrued interest of $850. We issued Southridge 13,452 common shares pursuant to Rule 144 based on an agreed conversion price of $1.55 per share. We canceled the $3,000 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On December 15, 2011, Panache executed a partial debt to equity conversion of a $60,000 short-term promissory note dated May 12, 2011 in which they converted $14,415 principal. We issued Panache 10,000 common shares pursuant to Rule 144 based on an agreed conversion price of $1.4415 per share.

On January 3, 2012, Panache executed a partial debt to equity conversion of a $60,000 short-term promissory note dated May 12, 2011 in which they converted $12,896 principal. We issued Panache 16,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.806 per share.

On January 10, 2012, Panache executed a partial debt to equity conversion of a $60,000 short-term promissory note dated May 12, 2011 in which they converted $12,896 principal. We issued Panache 16,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.806 per share.

On January 18, 2012, Panache executed a partial debt to equity conversion of a $60,000 short-term promissory note dated May 12, 2011 in which they converted $12,710 principal. We issued Panache 20,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.6355 per share.

On January 27, 2012, Panache executed a debt to equity conversion of a $60,000 short-term promissory note dated May 12, 2011 in which they converted the final $7,083 in principal. We issued Panache 11,424 common shares pursuant to Rule 144 based on an agreed conversion price of $0.612 per share. We still owe Panache $3,139 in accrued interest associated with this note.

On January 23, 2012, Southridge executed a partial debt to equity conversion of a $150,000 short-term promissory note dated July 27, 2011 in which they converted $85,000 principal. We issued Southridge 132,781 common shares with a restrictive legend based on an agreed conversion price of $0.65 per share. The restrictive legend was removed on February 2, 2012 pursuant to Rule 144.

On January 27, 2012, Southridge executed a partial debt to equity conversion of a $150,000 short-term promissory note dated July 27, 2011 in which they converted $30,000 principal. We issued Southridge 48,387 common shares pursuant to Rule 144 based on an agreed conversion price of $0.60 per share.

On February 7, 2012, Southridge executed a partial debt to equity conversion of a $150,000 short-term promissory note dated July 27, 2011 in which they converted $18,500 principal and $6,411 interest. We issued Southridge 48,555 common shares pursuant to Rule 144 based on an agreed conversion price of $0.515 per share.

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On February 10, 2012, Southridge executed a partial debt to equity conversion of a $150,000 short-term promissory note dated July 27, 2011 in which they converted $16,500 principal and $99 interest. We issued Southridge 34,544 common shares pursuant to Rule 144 based on an agreed conversion price of $0.48 per share.

On February 17, 2012, Southridge executed a partial debt to equity conversion of a $100,000 short-term promissory note dated August 25, 2011 in which they converted $30,000 principal and $3,858 interest. We issued Southridge 68,475 common shares on February 27, 2012 pursuant to Rule 144 based on an agreed conversion price of $0.495 per share.

On February 23, 2012, Southridge executed a debt to equity conversion of a $7,500 short-term promissory note dated August 23, 2011 in which they converted $7,500 principal and $289 interest. We issued Southridge 15,091 common shares pursuant to Rule 144 based on an agreed conversion price of $0.515 per share.

On February 28, 2012, Southridge executed a partial debt to equity conversion of a $100,000 short-term promissory note dated September 12, 2012 in which they converted $51,000 principal and $3,595 interest. We issued Southridge 121,456 restricted common shares pursuant to Rule 144 based on an agreed conversion price of $0.45 per share.

On March 5, 2012, OTC Global Partners executed a debt to equity conversion of a $50,000 short-term promissory note dated August 30, 2011 in which they converted $50,000 principal and $2,027 interest. We issued OTC Global Partners 145,530 common shares pursuant to Rule 144 based on an agreed conversion price of $0.3575 per share.

On April 13, 2012, Southridge executed a partial debt to equity conversion of a $100,000 short-term promissory note dated September 12, 2012 in which they converted $49,000 principal and $1,096 interest. We issued Southridge 247,387 restricted common shares on April 24, 2012 pursuant to Rule 144 based on an agreed conversion price of $0.205 per share.

On April 13, 2012, Southridge executed a partial debt to equity conversion of a $100,000 short-term promissory note dated September 28, 2012 in which they converted $4,000 principal and $4,340 interest. We issued Southridge 41,184 restricted common shares on April 24, 2012 pursuant to Rule 144 based on an agreed conversion price of $0.205 per share.

On May 1, 2012, Panache executed a partial debt to equity conversion of a $100,000 short-term promissory note dated August 25, 2011 in which they converted $9,765 principal. We issued Panache 42,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.2325 per share.

On May 1, 2012, Asher executed a partial debt to equity conversion of a $78,500 short-term promissory note dated October 24, 2011 in which they converted $12,000 principal. We issued Asher 52,174 common shares pursuant to Rule 144 based on an agreed conversion price of $0.23 per share.

On May 2, 2012, Asher executed a partial debt to equity conversion of a $78,500 short-term promissory note dated October 24, 2011 in which they converted $15,000 principal. We issued Asher 88,235 common shares pursuant to Rule 144 based on an agreed conversion price of $0.17 per share.

On May 10, 2012, Asher executed a partial debt to equity conversion of a $78,500 short-term promissory note dated October 24, 2011 in which they converted $13,000 principal. We issued Asher 136,842 common shares pursuant to Rule 144 based on an agreed conversion price of $0.095 per share.

On May 10, 2012, Panache executed a partial debt to equity conversion of a $100,000 short-term promissory note dated August 25, 2011 in which they converted $7,440 principal. We issued Panache 60,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.124 per share.

On May 15, 2012, Panache executed a partial debt to equity conversion of a $100,000 short-term promissory note dated August 25, 2011 in which they converted $9,330 principal. We issued Panache 100,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0933 per share.

On May 21, 2012, Asher executed a partial debt to equity conversion of a $78,500 short-term promissory note dated October 24, 2011 in which they converted $18,500 principal. We issued Asher 205,556 common shares pursuant to Rule 144 based on an agreed conversion price of $0.09 per share.

On May 22, 2012, Panache executed a partial debt to equity conversion of a $100,000 short-term promissory note dated August 25, 2011 in which they converted $9,330 principal. We issued Panache 100,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.093 per share.

On May 29, 2012, Asher executed a partial debt to equity conversion of a $78,500 short-term promissory note dated October 24, 2011 in which they converted $12,000 principal. We issued Asher 133,333 common shares pursuant to Rule 144 based on an agreed conversion price of $0.09 per share.

On May 30, 2012, Panache executed a partial debt to equity conversion of a $100,000 short-term promissory note dated August 25, 2011 in which they converted $9,330 principal. We issued Panache 100,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.093 per share.

On June 4, 2012, Asher executed a partial debt to equity conversion of a $78,500 short-term promissory note dated October 24, 2011 in which they converted $8,000 principal and $3,140 in interest. We issued Asher 171,385 common shares pursuant to Rule 144 based on an agreed conversion price of $0.065 per share.

On June 5, 2012, Panache executed a partial debt to equity conversion of a $100,000 short-term promissory note dated August 25, 2011 in which they converted $9,920 principal. We issued Panache 160,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.062 per share.

On June 8, 2012, Asher executed a partial debt to equity conversion of a $53,000 short-term promissory note dated November 29, 2011 in which they converted $12,000 principal. We issued Asher 171,385 common shares pursuant to Rule 144 based on an agreed conversion price of $0.07 per share.

On June 12, 2012, Asher executed a partial debt to equity conversion of a $53,000 short-term promissory note dated November 29, 2011 in which they converted $14,000 principal. We issued Asher 200,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.07 per share.

On June 15, 2012, Asher executed a partial debt to equity conversion of a $53,000 short-term promissory note dated November 29, 2011 in which they converted $13,000 principal. We issued Asher 136,842 common shares pursuant to Rule 144 based on an agreed conversion price of $0.095 per share.

On June 20, 2012, Asher executed a partial debt to equity conversion of a $53,000 short-term promissory note dated November 29, 2011 in which they converted $14,000 principal and $2,120 in interest. We issued Asher 189,647 common shares pursuant to Rule 144 based on an agreed conversion price of $0.085 per share.

On July 17, 2012, Ms. Grable, our CEO and Chairman of the Board, executed a full debt to equity conversion of a $13,000 short-term promissory note in which she converted $13,000 principal and $148 in interest. We issued Ms. Grable 87,654 restricted common shares pursuant to Rule 144 based on an agreed conversion price of $0.15 per share. Ms. Grable is deemed an affiliated party.

On July 17, 2012, a private investor executed a partial debt to equity conversion of five of her notes in which she converted $19,583 principal into 200,000 restricted common shares pursuant to Rule 144 based on an agreed conversion price of $0.0885 per share.

On July 25, 2012, a private investor executed a full debt to equity conversion of a $3,000 short-term promissory note in which she converted $3,000 principal into 20,000 restricted common shares pursuant to Rule 144 based on an agreed conversion price of $0.15 per share.

On July 30, 2012, a private investor executed a partial debt to equity conversion of a $10,000 short-term promissory note in which she converted $6,900 principal into 46,000 restricted common shares pursuant to Rule 144 based on an agreed conversion price of $0.15 per share.

On August 7, 2012, a private investor sold their December 2011 short-term promissory notes totaling $21,604 in principal and $5,334 in premium to OTC Global Partners. A new short-term promissory note was issued to OTC Global Partners dated August 7, 2012 with a taking period back to December 7, 2011. OTC Global Partners may elect at an Event of Default to convert any part or all of the $21,604 Principal Amount of the Note plus accrued premium into shares of our common stock at a conversion price $0.16.

On August 7, 2012, OTC Global Partners executed a partial debt to equity conversion of the $21,604 short-term promissory note in which they converted $21,604 principal and $2,396 in premium. We issued OTC Global Partners 150,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.16 per share.

On September 5, 2012, Southridge executed a partial debt to equity conversion of a $100,000 short-term promissory note dated September 28, 2011 in which they converted $85,582 principal. We issued Southridge 760,727 common shares pursuant to Rule 144 based on an agreed conversion price of $0.115 per share.

On September 10, 2012, Levin Consulting Group executed a partial debt to equity conversion of the $70,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $20,000 principal. We issued Levin Consulting Group 160,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.125 per share. On September 21, 2012 we issued Levin Consulting Group an additional 240,000 shares because the closing bid price on the clearing date fell below the Initial closing bid price.

On September 10, 2012, Panache executed a partial debt to equity conversion of a $100,000 short-term promissory note dated August 25, 2011 in which they converted $14,885 principal. We issued Panache 160,054 common shares pursuant to Rule 144 based on an agreed conversion price of $0.093 per share.

On September 11, 2012, Southridge executed a final debt to equity conversion of a $100,000 short-term promissory note dated September 28, 2011 in which they converted $10,418 principal and $3,004 in interest. We issued Southridge 178,958 common shares pursuant to Rule 144 based on an agreed conversion price of $0.075 per share.

On September 11, 2012, Southridge executed a partial debt to equity conversion of a $100,000 short-term promissory note dated October 26, 2011 in which they converted $32,500 principal and $7,036 in interest. We issued Southridge 527,142 common shares pursuant to Rule 144 based on an agreed conversion price of $0.075 per share.

On September 12, 2012, Southridge executed a partial debt to equity conversion of a $100,000 short-term promissory note dated October 26, 2011 in which they converted $4,150 principal. We issued Southridge 55,333 common shares pursuant to Rule 144 based on an agreed conversion price of $0.075 per share.

On September 12, 2012, Panache executed a partial debt to equity conversion of a $40,000 short-term promissory note dated November 21, 2011 in which they converted $23,250 principal. We issued Panache 250,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.093 per share.

On September 19, 2012, Panache executed a final debt to equity conversion of a $40,000 short-term promissory note dated November 21, 2011 in which they converted $16,750 principal and $3,244 in interest. We issued Panache 257,983 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0775 per share.

On September 20, 2012, Southridge executed a partial debt to equity conversion of a $100,000 short-term promissory note dated October 26, 2011 in which they converted $47,300 principal and $153 in interest. We issued Southridge 759,255 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0625 per share.

On September 27, 2012, OTC Global Partners executed a partial debt to equity conversion of the $30,000 short-term promissory note in which they converted $18,000 in principal. We issued OTC Global Partners 360,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.05 per share.

On September 28, 2012, Panache executed a partial debt to equity conversion of a $25,000 short-term promissory note dated February 28, 2012 in which they converted $13,200 principal. We issued Panache 240,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.055 per share.

On October 1, 2012, Southridge executed a final debt to equity conversion of a $100,000 short-term promissory note dated October 26, 2011 in which they converted $16,050 principal and $219 in interest. We issued Southridge 325,384 common shares pursuant to Rule 144 based on an agreed conversion price of $0.05 per share.

On October 1, 2012, Southridge executed a partial debt to equity conversion of a $20,000 short-term promissory note dated November 14, 2011 in which they converted $10,900 principal and $1,398 in interest. We issued Southridge 245,967 common shares pursuant to Rule 144 based on an agreed conversion price of $0.05 per share.

On October 2, 2012, Southridge executed a final debt to equity conversion of a $20,000 short-term promissory note dated November 14, 2011 in which they converted $9,100 principal and $18 in interest. We issued Southridge 182,351 common shares pursuant to Rule 144 based on an agreed conversion price of $0.05 per share.

On October 3, 2012, SGI Group executed a partial debt to equity conversion of the $30,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $9,000 principal and $106 in interest. We issued SGI Group 364,248 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On October 4, 2012, Panache executed a partial debt to equity conversion of a $25,000 short-term promissory note dated February 28, 2012 in which they converted $6,600 principal. We issued Panache 240,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0275 per share.

On October 10, 2012, FLUX Carbon Starter Fund executed a partial debt to equity conversion of a $38,500 short-term promissory note dated October 4, 2012 in which they converted $15,000 principal. We issued FLUX Carbon Starter 300,000 restricted common shares pursuant to Rule 144 based on an agreed conversion price of $0.05 per share.

On October 11, 2012, OTC Global Partners executed a final debt to equity conversion of the $30,000 short-term promissory note in which they converted $18,000 in principal. We issued OTC Global Partners 240,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.05 per share.

On October 18, 2012, Southridge executed a partial debt to equity conversion of a $17,000 short-term promissory note dated December 19, 2011 in which they converted $15,900 principal and $1,125 in interest. We issued Southridge 681,010 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On October 23, 2012, Panache executed a final debt to equity conversion of a $25,000 short-term promissory note dated February 28, 2012 in which they converted $5,200 principal and $1,512 in interest. We issued Panache 244,061 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0275 per share.

On October 24, 2012, Levin Consulting Group executed a partial debt to equity conversion of the $70,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which

they converted $12,200 principal and $214 in interest. We issued Levin Consulting Group 496,417 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On October 24, 2012, SGI Group executed a partial debt to equity conversion of the $30,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $5,100 principal and $88 in interest. We issued SGI Group 207,528 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On November 6, 2012, Southridge executed a final debt to equity conversion of a $17,000 short-term promissory note dated December 19, 2011 in which they converted $1,100 principal and $26 in interest. We issued Southridge 45,043 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On November 6, 2012, Southridge executed a debt to equity conversion of a $30,000 short-term promissory note dated March 19, 2012 in which they converted $30,000 principal and $1,433 in interest. We issued Southridge 1,257,337 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On November 6, 2012, Southridge executed a partial debt to equity conversion of an $11,000 short-term promissory note dated April 9, 2012 in which they converted $2,750 principal and $475 in interest. We issued Southridge 128,998 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On November 21, 2012, Southridge executed a final debt to equity conversion of an $11,000 short-term promissory note dated April 9, 2012 in which they converted $8,250 principal and $53 in interest. We issued Southridge 332,122 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On November 21, 2012, Southridge executed a debt to equity conversion of a $2,500 short-term promissory note dated April 26, 2012 in which they converted $2,500 principal and $111 in interest. We issued Southridge 1,104,427 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On November 21, 2012, Southridge executed a debt to equity conversion of an $8,000 short-term promissory note dated May 15, 2012 in which they converted $8,000 principal and $321 in interest. We issued Southridge 332,835 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On December 18, 2012, Levin Consulting Group executed a partial debt to equity conversion of the $70,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $10,000 principal and $315 in interest. We issued Levin Consulting Group 1,085,800 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0095 per share. On January 10, 2013 we issued Levin Consulting Group an additional 633,383 shares because the closing bid price on the clearing date fell below the Initial closing bid price.

On December 18, 2012, SGI Group executed a partial debt to equity conversion of the $30,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $10,000 principal and $315 in interest. We issued SGI Group 1,085,800 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0095 per share.

On December 21, 2012, WHC Capital LLC executed a partial debt to equity conversion of the $46,400 short-term promissory note originally dated December 10, 2010 and purchased on August 20, 2012 from a private investor, in which they converted $9,329 principal. We issued WHC Capital LLC 982,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0095 per share.

On January 8, 2013, ASC Recap executed a partial debt to equity conversion of the $180,769 balance of a short-term promissory originally dated December 15, 2009 and purchased on December 12, 2012 from a private investor, in which they converted $11,115 principal. We issued ASC Recap 1,852,500 common shares pursuant to Rule 144 based on an agreed conversion price of $0.006 per share.

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On January 8, 2013, SGI Group executed a partial debt to equity conversion of the $30,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $5,900 principal and $4,400 in interest. We issued SGI Group 1,716,672 common shares pursuant to Rule 144 based on an agreed conversion price of $0.006 per share.

On January 10, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $10,000 principal. We issued Magna 1,554,002 common shares pursuant to Rule 144 based on an agreed conversion price of $0.006435 per share.

On January 15, 2013, WHC Capital LLC executed a partial debt to equity conversion of the $46,400 short-term promissory note originally dated December 10, 2010 and purchased on August 20, 2012 from a private investor, in which they converted $5,945 principal. We issued WHC Capital LLC 1,033,900 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00575 per share.

On January 18, 2013, ASC Recap executed a partial debt to equity conversion of the $180,769 balance of a short-term promissory originally dated December 15, 2009 and purchased on December 12, 2012 from a private investor, in which they converted $11,100 principal. We issued ASC Recap 1,850,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.006 per share.

On January 18, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $13,600 principal. We issued Magna 1,766,234 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0077 per share.

On January 23, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $12,500 principal. We issued Redwood 2,192,982 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0057 per share.

On January 28, 2013, WHC Capital LLC executed a partial debt to equity conversion of the $46,400 short-term promissory note originally dated December 10, 2010 and purchased on August 20, 2012 from a private investor, in which they converted $4,726 in principal and $5,019 in premium. We issued WHC Capital LLC 1,949,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.005 per share.

On January 28, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $9,900 principal. We issued Magna 1,766,234 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0055 per share.

On January 28, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $12,500 principal. We issued Redwood 2,272,727 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0055 per share.

On February 1, 2013, Levin Consulting Group executed a partial debt to equity conversion of the $70,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $7,000 principal and $248 in interest. We issued Levin Consulting Group 1,767,771 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0041 per share. On February 22, 2013 we issued Levin Consulting Group an additional 3,409,271 shares because the closing bid price on the clearing date fell below the Initial closing bid price.

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On February 1, 2013, SGI Group executed a partial debt to equity conversion of the $30,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $2,857 in interest. We issued SGI Group 696,878 common shares pursuant to Rule 144 based on an agreed conversion price of $0.006 per share. On February 11, 2013 we issued SGI Group an additional 446,002 shares because the closing bid price on the clearing date fell below the Initial closing bid price.

On February 6, 2013, Southridge executed a debt to equity conversion of a $6,672 short-term promissory note dated June 18, 2012 in which they converted $6,672 principal and $338 in interest. We issued Southridge 2,046,658 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00343 per share.

On February 6, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $6,500 principal. We issued Magna 4,166,667 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00156 per share.

On February 6, 2013, WHC Capital LLC executed a partial debt to equity conversion of the $46,400 short-term promissory note originally dated December 10, 2010 and purchased on August 20, 2012 from a private investor, in which they converted $5,843 in premium. We issued WHC Capital LLC 2,050,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00285 per share.

On February 6, 2013, ASC Recap executed a partial debt to equity conversion of the $180,769 balance of a short-term promissory originally dated December 15, 2009 and purchased on December 12, 2012 from a private investor, in which they converted $5,375 principal. We issued ASC Recap 1,628,788 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0033 per share.

On February 6, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $3,500 principal. We issued Redwood 2,121,212 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00165 per share.

On February 12, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $5,000 principal. We issued Redwood 3,030,303 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00165 per share.

On February 12, 2013, Southridge executed a partial debt to equity conversion of a $25,000 short-term promissory note dated August 2, 2012 in which they converted $7,475 principal and $1,058 in interest. We issued Southridge 4,162,212 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00205 per share.

On February 14, 2013, Southridge executed a partial debt to equity conversion of a $25,000 short-term promissory note dated August 2, 2012 in which they converted $2,185 principal and $11 in interest. We issued Southridge 1,626,636 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00135 per share.

On February 15, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $6,100 principal. We issued Magna 6,931,819 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00088 per share.

On February 18, 2013, Black Arch executed a partial debt to equity conversion of a $95,000 Promissory Note originally dated August 15, 2012 which they purchased $15,000 Principal from Southridge on February 11, 2013, in which they converted $7,500 principal. We issued Black Arch 5,555,556 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00135 per share.

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On February 19, 2013, WHC Capital LLC executed a partial debt to equity conversion of the $46,400 short-term promissory note originally dated December 10, 2010 and purchased on August 20, 2012 from a private investor, in which they converted $4,083 in premium. We issued WHC Capital LLC 3,711,600 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0011 per share.

On February 20, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $3,400 principal. We issued Redwood 3,863,636 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00088 per share.

On February 20, 2013, a private investor executed a partial debt to equity conversion of a $95,000 Promissory Note originally dated August 15, 2012 which they purchased $5,000 Principal from Southridge on February 11, 2013, in which they converted $3,000 principal. We issued the private investor 2,736,273 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0011 per share.

On February 22, 2013, Southridge executed a partial debt to equity conversion of a $25,000 short-term promissory note dated August 2, 2012 in which they converted $6,325 principal and $49 in interest. We issued Southridge 5,794,832 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0011 per share.

On February 26, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $3,500 principal. We issued Redwood 3,977,272 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00088 per share.

On February 27, 2013, WHC Capital LLC executed a partial debt to equity conversion of the $46,400 short-term promissory note originally dated December 10, 2010 and purchased on August 20, 2012 from a private investor, in which they converted $10,800 in premium. We issued WHC Capital LLC 12,000,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0009 per share.

On March 5, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $3,950 principal. We issued Redwood 4,488,636 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00088 per share.

On March 5, 2013, Black Arch executed a final debt to equity conversion of a $95,000 Promissory Note originally dated August 15, 2012 which they purchased $15,000 Principal from Southridge on February 11, 2013, in which they converted $7,500 principal and $44 in interest. We issued Black Arch 8,382,648 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0009 per share. On March 21, 2013 we issued Black Arch Group an additional 3,224,096 shares because the closing bid price on the clearing date fell below the Initial closing bid price.

On March 5, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $6,100 principal. We issued Magna 6,931,819 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00088 per share.

On March 5, 2013, Southridge executed a partial debt to equity conversion of a $25,000 short-term promissory note dated August 2, 2012 in which they converted $4,865 principal and $60 in interest. We issued Southridge 5,794,440 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00085 per share.

On March 7, 2013, a private investor executed a partial debt to equity conversion of a $95,000 Promissory Note originally dated August 15, 2012 which they purchased $5,000 Principal from Southridge on February 11, 2013, in

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which they converted $2,000 principal and $11 in interest. We issued the private investor 2,365,882 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00085 per share.

On March 13, 2013, Southridge executed a final debt to equity conversion of a $25,000 short-term promissory note dated August 2, 2012 in which they converted $4,150 principal. We issued Southridge 6,384,615 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00065 per share.

On March 13, 2013, Southridge executed a partial debt to equity conversion of a $30,000 short-term promissory note dated September 5, 2012 in which they converted $4,755 principal and $1,243 in interest. We issued Southridge 9,227,292 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00065 per share.

On March 13, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $4,620 principal. We issued Magna 7,000,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00066 per share.

On March 13, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $6,400 principal. We issued Redwood 8,311,688 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00077 per share.

On March 13, 2013, WHC Capital LLC executed a partial debt to equity conversion of the $46,400 short-term promissory note originally dated December 10, 2010 and purchased on August 20, 2012 from a private investor, in which they converted $656 premium and $643 in interest. We issued WHC Capital LLC 1,998,308 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00065 per share.

On March 14, 2013, SGI Group executed a partial debt to equity conversion of a $95,000 Promissory Note originally dated August 15, 2012 which they purchased $10,000 Principal from Southridge on February 11, 2013, in which they converted $6,700 principal and $70 in interest. We issued SGI Group 10,416,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00065 per share.

On March 14, 2013, Levin Consulting Group executed a partial debt to equity conversion of the $70,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $6,500 principal and $294 in interest. We issued Levin Consulting Group 10,452,215 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00065 per share.

On March 20, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $5,250 principal. We issued Redwood 8,750,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0006 per share.

On March 20, 2013, Panache executed a partial debt to equity conversion of a $25,000 short-term promissory note dated September 6, 2012 in which they converted $3,900 principal. We issued Panache 6,500,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0006 per share.

On March 21, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $3,616 principal. We issued Tangiers 6,026,789 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0006 per share.

On March 22, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $5,005 principal. We issued Magna 7,000,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.000715 per share.

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On March 27, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $7,049 principal. We issued Tangiers 12,817,145 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00055 per share.

From January 2011 to April 2011, Southridge acquired promissory notes from a private investor totaling $800,000 in principal and 110,728 shares of common stock which were issued as collateral. Southridge proposed that we amend the conversion terms of the notes permitting the holder to convert the notes and we agreed to the amendment. From January 12, 2011 to May 18, 2012, Southridge issued notices of conversion to settle $700,000 in principal plus accrued premiums totaling $395,699 into 810,406 shares of our common stock, of which 103,606 shares were collateral shares and 706,800 new shares were issued pursuant to Rule 144.

As of March 31, 2013, we owe a total of $1,852,487 of short term debt of which $1,193,524 is principal, $593,674 is accrued premium and $65,288 is accrued interest. We have repaid aggregate principal and premium in the amount of $173,376 on these short-term notes and a total of $2,825,959 principal, $432,190 in premium, and $86,385 in interest has been converted into 273,636,206 shares of our common stock of which 103,606 shares were collateral shares and 273,532,600 new shares were issued pursuant to Rule 144. Out of the original 103,606 shares of common stock held as collateral, a balance of 7,122 shares remains on the $85,985 principal of the remaining notes.

All debt conversions were consummated at the contractual terms agreed upon for each loan. Accordingly, there was no gain/loss on conversions.

There can be no assurances that we will be able to pay our short-term loans when due. If we default on all of the notes due to the lack of new funding, the holders could exercise their right to sell the remaining 103,606 collateral shares and could take legal action to collect the amount due which could materially adversely affect IDSI and the value of our stock.

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NOTE 10 – LONG-TERM CONVERTIBLE DEBT

On February 23, 2011, we entered into a Convertible Promissory Note Agreement with an unaffiliated third party, JMJ Financial (the "Lender" or "JMJ"), relating to a private placement of a total of up to $1,800,000 in principal amount of a Convertible Promissory Note (the "Note") providing for advances of a gross amount of $1,600,000 in seven tranches. Pursuant to the terms of a Registration Rights Agreement (the "Rights Agreement") dated February 23, 2011, between the Company and JMJ, we are required to file within 10 days from the effective date of an increase of authorized shares approved by our shareholders, an S-1 Registration Statement (the "Registration Statement") covering 130,000,000 shares of Company common stock to be reserved for conversion of the Note. Although our shareholders on July 12, 2011, voted to increase our authorized shares to 2,000,000,000, we have not filed the registration statement as required by the Rights Agreement.

The Note provides for funding in seven tranches as stipulated in the Funding Schedule attached. The first tranche of $300,000 was closed on February 24, 2011, and we received $258,000 after deductions of $30,000 for a 10% Finder's Fee and $12,000 for an Origination Fee. The second tranche of $100,000 closed on May 20, 2011, and we received $93,000 after deduction of $7,000 for a 7% Finder's Fee. A partial closing on the third tranche of $35,000 closed on October 7, 2011 and we received $32,250 after deduction of $2,750 for a 7% Finder's Fee. A partial closing on the third tranche of $25,000 closed on February 8, 2012 and we received $25,000. In connection with this partial third tranche we will pay a 7% Finder's Fee, which is $1,750. A partial closing on the third tranche of $25,000 closed on February 29, 2012 and we received $25,000. In connection with this partial third tranche we will pay a 7% Finder's Fee, which is $1,750. A final closing on the third tranche of $15,000 closed on April 4, 2012 and we received $15,000. In connection with this final third tranche we will pay a 7% Finder's Fee, which is $1,050. We received $10,000 from a partial closing on the fourth tranche with JMJ on October 3, 2012. In connection with this partial fourth tranche we will pay a 7% Finder's Fee, which is $700. The remaining four tranches are to be funded based on achievement of milestones relating to the Registration Statement, with the final tranche of $300,000 being available 150 days after effectiveness of the Registration Statement, which must be effective 120 days after the date of the Agreement. For the remaining four tranches, we are obligated to pay a Finder's Fee equal to 7% in cash at each closing date. We may cancel the unfunded portion of the Agreement at a fee of 20% of the unfunded amount. As of March 31, 2013, $1,290,000 in principal amount remains unfunded and if we choose to cancel we will have to pay JMJ $258,000 to terminate the agreement.

The Note, after the seven tranches are drawn, would generate net proceeds of $1,467,000 after payment of the Origination Fee and a 7% Finder's Fee. JMJ has the option to provide an additional $1,600,000 of funding on substantially the same terms as the first Agreement; however, we have the right to cancel, without penalty, the Note Agreement within five days of JMJ's execution. Once executed and accepted by both parties and five days has passed, cancellation of unfunded payments is permitted at a fee of 20% of the unfunded amount. Cancellation of funded portions is not permitted.

The funding schedule of the seven tranches is as follows:

- $300,000 paid to Borrower within 2 business days of execution and closing of the agreement.
- $100,000 paid to Borrower within 5 business days of filing of Definitive Proxy to increase authorized shares to 2,000,000,000 or more.
- $100,000 paid to Borrower within 5 business days of effective increase in authorized shares to 2,000,000,000 or more.
- $100,000 paid to Borrower within 5 business days of filing of registration statement, and that registration statement must be filed no later than 10 days from the effective increase of authorized shares.
- $400,000 paid to Borrower within 5 business days of notice of effective registration statement, and that registration statement must be effective no later than 120 days from the execution of the agreement.

- $300,000 paid to Borrower within 90 business days of notice of effective registration statement, and that registration statement must be effective no later than 120 days from the execution of the agreement.

- $300,000 paid to Borrower within 150 business days of notice of effective registration statement, and that registration statement must be effective no later than 120 days from the execution of the agreement.

The conditions to funding each payment are as follows:

- At the time of each payment interval, the Conversion Price calculation on Borrower's common stock must yield a Conversion Price equal to or greater than $0.015 per share (based on the Conversion Price calculation, regardless of whether a conversion is actually completed or not).

- At the time of each payment interval, the total dollar trading volume of Borrower's common stock for the previous 23 trading days must be equal to or greater than $1,000,000. The total dollar volume will be calculated by removing the three highest dollar volume days and summing the dollar volume for the remaining 20 trading days.

- At the time of each payment interval, there shall not exist an event of default as described within any of the agreements between Borrower and Holder.

Prior to the maturity date of February 2, 2014, JMJ may convert both principal and interest into our common stock at 75% of the average of the three lowest closing prices in the 20 days previous to the conversion. We have the right to enforce a conversion floor of $0.015 per share; however, if we receive a conversion notice in which the Conversion Price is less than $0.015 per share, JMJ will incur a conversion loss [(Conversion Loss = $0.015 – Conversion Price) x number of shares being converted] which we must make whole by either of the following options: pay the conversion loss in cash or add the conversion loss to the balance of principal due. Prepayment of the Note is not permitted.

The Note has a 9% one-time interest charge on the principal sum. No interest or principal payments are required until the Maturity Date, but both principal and interest may be included in conversions prior to the maturity date.

Debt to Equity Conversions:

On August 24, 2011, JMJ executed a debt to equity conversion of $36,015 in principal of the first tranche of $300,000 which we closed on February 24, 2011. We issued JMJ 7,000 common shares pursuant to Rule 144 based on a conversion price of $5.15 per share.

On August 31, 2011, JMJ executed a debt to equity conversion of $41,160 in principal of the first tranche of $300,000 which we closed on February 24, 2011. We issued JMJ 8,000 common shares pursuant to Rule 144 based on a conversion price of $5.15 per share.

On September 15, 2011, JMJ executed a debt to equity conversion of $37,597 in principal of the first tranche of $300,000 which we closed on February 24, 2011. We issued JMJ 8,200 common shares pursuant to Rule 144 based on a conversion price of $4.59 per share.

On September 28, 2011, JMJ executed a debt to equity conversion of $40,950 in principal of the first tranche of $300,000 which we closed on February 24, 2011. We issued JMJ 10,000 common shares pursuant to Rule 144 based on a conversion price of $4.10 per share.

On October 12, 2011, JMJ executed a debt to equity conversion of $36,750 in principal of the first tranche of $300,000 which we closed on February 24, 2011. We issued JMJ 10,000 common shares pursuant to Rule 144 based on a conversion price of $3.68 per share.

On December 15, 2011, JMJ executed a debt to equity conversion of $63,840 in principal of the first tranche of $300,000 which we closed on February 24, 2011. We issued JMJ 40,000 common shares pursuant to Rule 144 based on a conversion price of $1.60 per share.

On January 24, 2012, JMJ executed a debt to equity conversion totaling $44,100 of which $43,688 was principal and $412 was consideration for the first tranche of $300,000, which we closed on February 24, 2011. We issued JMJ 60,000 common shares pursuant to Rule 144 based on a conversion price of $0.74 per share.

On February 9, 2012, JMJ executed a debt to equity conversion totaling $44,100 of which $37,088 was consideration and $7,012 was interest for the first tranche of $300,000, which we closed on February 24, 2011. We issued JMJ 70,000 common shares pursuant to Rule 144 based on a conversion price of $0.63 per share.

On February 29, 2012, JMJ executed a debt to equity conversion totaling $39,550 of which $19,988 was interest for the first tranche of $300,000, which we closed on February 24, 2011 and $19,562 was principal for the second tranche of $100,000, which we closed on May 20, 2011. We issued JMJ 100,000 common shares pursuant to Rule 144 based on a conversion price of $0.40 per share.

On April 24, 2012, JMJ executed a debt to equity conversion of $29,120 in principal of the second tranche of $100,000 which we closed on May 20, 2012. We issued JMJ 104,000 common shares pursuant to Rule 144 based on a conversion price of $0.28 per share.

On May 9, 2012, JMJ executed a debt to equity conversion of $28,980 in principal of the second tranche of $100,000 which we closed on May 20, 2012. We issued JMJ 138,000 common shares pursuant to Rule 144 based on a conversion price of $0.21 per share.

On May 14, 2012, JMJ executed a debt to equity conversion of $4,389 in principal of the second tranche of $100,000 which we closed on May 20, 2011. We issued JMJ 38,000 common shares pursuant to Rule 144 based on a conversion price of $0.12 per share.

On May 24, 2012, JMJ executed a debt to equity conversion of $22,260 in principal of the second tranche of $100,000 which we closed on May 20, 2011. We issued JMJ 212,000 common shares pursuant to Rule 144 based on a conversion price of $0.11 per share.

On May 31, 2012, JMJ executed a debt to equity conversion of $2,940 in principal of the second tranche of $100,000 which we closed on May 20, 2011. We issued JMJ 28,000 common shares pursuant to Rule based on a conversion price of $0.11 per share.

On June 6, 2012, JMJ executed a debt to equity conversion totaling $19,551 of which $14,249 was interest for the second tranche of $100,000, which we closed on May 20, 2011 and $5,302 was principal for the third tranche of $35,000, which we closed on October 7, 2011. We issued JMJ 210,000 common shares pursuant to Rule 144 based on a conversion price of $0.093 per share.

On September 7, 2012, JMJ executed a debt to equity conversion of $19,572 in principal of the third tranche of $35,000, which we closed on October 7, 2011. We issued JMJ 240,000 common shares pursuant to Rule 144 based on a conversion price of $0.082 per share.

On October 3, 2012, JMJ executed a debt to equity conversion totaling $42,000 of which $14,501 was principal and $3,150 was interest for the third tranche of $35,000, which we closed on October 7, 2011; and $24,349 was principal of the fourth tranche of $25,000, which we closed on February 8, 2012. We issued JMJ 600,000 common shares pursuant to Rule 144 based on a conversion price of $0.07 per share.

On October 24, 2012, JMJ executed a debt to equity conversion totaling $10,500 of which $3,776 was principal and $2,250 was interest for the fourth tranche of $25,000, which we closed on February 8, 2012; and $4,474 was

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principal of the fifth tranche of $25,000, which we closed on February 29, 2012. We issued JMJ 300,000 common shares pursuant to Rule 144 based on a conversion price of $0.035 per share.

On January 16, 2013, JMJ executed a debt to equity conversion of $7,455 in principal of the fifth tranche of $25,000, which we closed on February 29, 2012. We issued JMJ 895,000 common shares pursuant to Rule 144 based on a conversion price of $0.00833 per share.

On January 29, 2013, JMJ executed a debt to equity conversion of $6,334 in principal of the fifth tranche of $25,000, which we closed on February 29, 2012. We issued JMJ 890,000 common shares pursuant to Rule 144 based on a conversion price of $0.007117 per share.

On February 11, 2013, JMJ executed a debt to equity conversion of $10,083 in principal of the fifth tranche of $25,000, which we closed on February 29, 2012. We issued JMJ 2,900,000 common shares pursuant to Rule 144 based on a conversion price of $0.003477 per share.

On February 20, 2013, JMJ executed a debt to equity conversion of $2,028 in principal of the fifth tranche of $25,000, which we closed on February 29, 2012; and $3,335 in principal of the sixth tranche of $15,000, which we closed on April 5, 2012. We issued JMJ 2,910,000 common shares pursuant to Rule 144 based on a conversion price of $0.001843 per share.

On February 27, 2013, JMJ executed a debt to equity conversion of $5,226 in principal of the sixth tranche of $15,000, which we closed on April 5, 2012. We issued JMJ 3,500,000 common shares pursuant to Rule 144 based on a conversion price of $0.001493 per share.

On March 5, 2013, JMJ executed a debt to equity conversion of $7,425 in principal of the sixth tranche of $15,000, which we closed on April 5, 2012. We issued JMJ 5,400,000 common shares pursuant to Rule 144 based on a conversion price of $0.001377 per share.

On March 5, 2013, JMJ executed a debt to equity conversion of $2,229 in principal and interest of the sixth tranche of $15,000, which we closed on April 5, 2012; and $5,625 was the balance owed of consideration on the principal from the prior six tranches. We issued JMJ 7,829,800 common shares pursuant to Rule 144 based on a conversion price of $0.001003 per share.

All debt conversions were consummated at the contractual terms agreed upon for each loan. Accordingly, there was no gain/loss on conversions.

As of the March 31, 2013, we owe JMJ a total of $12,263 in long-term debt of which $10,000 is principal, $1,250 is consideration on the principal and $1,013 is interest.

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NOTE 11 – PREFERRED STOCK

In accordance with ASC 480-10-699 (Redeemable Preferred Stocks) redeemable equity instruments are reported as a separate component of temporary equity. Redeemable Preferred Stock includes our Series L Preferred Stock which can be redeemed upon a majority vote by our Board of Directors.

On February 25, 2010, we issued 35 shares of our Series L Convertible Preferred Stock at a purchase price of $10,000 per share as collateral in connection with a $350,000 short-term loan. On March 31, 2010 the holder converted the note into the collateral shares of 35 preferred shares of Series L Convertible Preferred Stock. We have reserved 16,587,690 shares of common stock to cover the conversion of the 35 shares of Series L Convertible Preferred Stock outstanding. Pursuant to the Certificate of Designation of Series L Convertible Preferred Stock, (iii) Issuance of Securities, a reset provision is provided if common shares are issued at less than $.0211 per share on or before the conversion of all of the Series L Convertible Preferred shares. The reset provision triggered a Derivative Liability valuation for such provision (See Note 12). On January 6, 2011, the investor converted 15 shares of the Series L Convertible Preferred Stock into 20,000 shares of common stock. On May 11, 2011, we obtained a waiver from the private investor where the investor agreed to convert no additional Series L Convertible Preferred Stock into common shares until the approval by our shareholders of an increase in authorized common stock at our next annual meeting to be held on July 12, 2011. At the annual meeting, our shareholders voted to increase our authorized shares to 2,000,000,000 and the waiver was terminated.

From January 1, 2012 to March 31, 2013, we issued 58 shares of our Series P Preferred Stock which has a stated value of $5,000 per share as collateral in connection with nine short-term promissory notes from an unaffiliated third party investor. The total stated value of the collateral is $290,000.

On March 21, 2012 we entered into a Series Q Preferred Stock Purchase Agreement with our CEO, Linda B. Grable pursuant to which she was issued all of the 51 authorized shares of Series Q Preferred Stock, with a stated value of $0.001 per share as partial consideration for past and future services rendered and recorded the nominal amount of $1.00 for this issuance. The Series Q Preferred Stock has no economic value and was issued solely for voting purposes.

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NOTE 12 – DERIVATIVE LIABILITY

Effective June 1, 2010, we adopted the ASC 815 guidance provided for Derivatives and Hedging which applies to any free standing financial instruments or embedded features that have characteristics of a derivative and to any free standing financial instruments that are potentially settled in an entity's own common stock. As of September 30, 2011, we had 20 shares of Series L Convertible Preferred Stock outstanding for which the underlying common has a reset provision relating to the conversion price. As a result of the reset provision we recorded a Derivative Liability of $64,524 which accrued on the date of issuance and recorded an increase of $137,631 as a result in changes in the market price of our stock. The total Derivative Liability for the Series L Convertible Preferred Stock for the fiscal year ended June 30, 2010 was $202,156. For the quarter ending September 30, 2010, we recorded additional Derivative Expense of $19,355 due to a conversion rate adjustment from $.0211 to $.019933 associated with Series L Convertible Preferred Stock issued to the holder. For the quarter ending December 31, 2010, we recorded additional Derivative Expense of $81,827 due to a conversion rate adjustment from $.019933 to $.015 associated with Series L Convertible Preferred Stock issued to the holder. On January 6, 2011, the investor converted 15 shares of the Series L Convertible Preferred Stock into 20,000 shares of common stock. On May 11, 2011, we obtained a waiver from the private investor where the investor agreed to convert no additional Series L Convertible Preferred Stock into common shares until the approval by our shareholders of an increase in authorized common stock at our next annual meeting to be held on July 12, 2011. Due to this conversion and the receipt of the waiver, we retired $303,337 of Derivative Liability. Because of the fixed conversion price established at the time of the waiver, no further Derivative Liability was recorded. At the annual meeting, our shareholders voted to increase our authorized shares to 2,000,000,000 and the waiver for the holder to convert to common was terminated.

We have notes payable outstanding that can be converted into our common stock at any time at the option of the note holder. The number of shares to be issued is made pursuant to conversion notices by the note holder and is based on agreed-upon formulas. The conversions have no floor and thus give rise to a derivative liability in accordance with ASC 815. The derivative liabilities associated with these conversion notices are valued using the Black Scholes Pricing Model and are marked-to-market at the end of each quarter. As of March 31, 2013 and June 30, 2012, we had derivative liabilities reported in our balance sheet in connection with these types of options totaling $611,940 and $961,058, respectively and recorded as gain on change in fair value of derivative liabilities in our statement of operations $297,077 and $1,337,298 for the three and nine months ended March 31, 2013, respectively. Gain on change in fair value was $399,170 and $1,484,827 for the three and nine months ending March 31, 2012, respectively.

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NOTE 13 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values of cash and cash equivalents, receivables, accounts payable, short-term debt and accrued liabilities approximated their fair values due to the short maturity of these instruments. After a review of our accounts receivable, the Company has recorded an allowance of $1,088 for doubtful accounts. The fair value of the Company's debt obligations is estimated based on the quoted market prices for the same or similar issues or on current rates offered to the Company for debt of the same remaining maturities. At March 31, 2013 and 2012, the aggregate fair value of the Company's debt obligations approximated its carrying value.

The Company relies upon the guidance of ASC 820 ("Fair Value Measurements and Disclosures"). ASC 820 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance. ASC 820 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 establishes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is disclosed and is determined based on the lowest level input that is significant to the fair value measurement.

Upon adoption of ASC 820, there was no cumulative effect adjustment to the beginning retained earnings and no impact on the consolidated financial statements.

The carrying value of the Company's cash and cash equivalents, accounts payable, short-term borrowings (including convertible notes payable), and other current liabilities approximate fair value because of their short-term maturity. All other significant financial assets, financial liabilities and equity instruments of the Company are either recognized or disclosed in the consolidated financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk. Where practicable the fair values of financial assets and financial liabilities have been determined and disclosed; otherwise only available information pertinent to fair value has been disclosed.

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The following table sets forth the Company's financial instruments as of March 31, 2013 which are recorded on the balance sheet at fair value on a recurring basis by level within the fair value hierarchy. As required by ASC 820, these are classified based on the lowest level of input that is significant to the fair value measurement:

	Quoted Prices in Active Markets for Identical Instruments Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Assets at Fair Value
Liabilities:				
Series L Convertible Preferred Stock	$	$	$ (200,000)	$ (200,000)
Series L Accrued Dividend Payable			$ (67,426)	$ (67,426)
Derivative Liability			$ (611,940)	$ (611,940)

At March 31, 2013, the carrying amount of the Series L Convertible Preferred Stock at stated value is deemed to be the fair value. The balance sheet also reflects a liability for the accrued dividend payable on the Series L Convertible Preferred Stock.

The following table sets forth the Company's financial instruments as of June 30, 2012 which are recorded on the balance sheet at fair value on a recurring basis by level within the fair value hierarchy. As required by ASC 820, these are classified based on the lowest level of input that is significant to the fair value measurement:

	Quoted Prices in Active Markets for Identical Instruments Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Assets at Fair Value
Liabilities:				
Series L Convertible Preferred Stock	$	$	$ (200,000)	$ (200,000)
Series L Accrued Dividend Payable			$ (53,914)	$ (53,914)
Derivative Liability			$ (961,058)	$ (961,058)

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At June 30, 2012, the carrying amount of the Series L Convertible Preferred Stock at stated value is deemed to be the fair value. The balance sheet also reflects a liability for the accrued dividend payable on the Series L Convertible Preferred Stock.

NOTE 14 – PROPERTY AND EQUIPMENT

The following is a summary of property and equipment, less accumulated depreciation:

	Mar. 31, 2013	June 30, 2012
Furniture and fixtures	$ 257,565	$ 257,565
Computers, equipment and software	426,873	426,873
CTLM® software costs	352,932	352,932
Trade show equipment	298,400	298,400
Clinical equipment	428,034	435,534
Laboratory equipment	212,560	212,560
Total Equipment	1,976,364	1,983,864
Less: accumulated depreciation	(1,856,425)	(1,852,712)
Total Equipment - Net	$ 119,939	$ 131,152

For the fiscal year ending June 30, 2008, we reclassified the net realizable value of $311,252 of CTLM® systems in Inventory to Clinical equipment as these CTLM® systems continue to be used as clinical systems associated with the data collection for our FDA application which we planned to submit to the FDA in December 2008.

For the fiscal year ending June 30, 2009, we reclassified the net realizable value of $8,591 of CTLM® systems in Inventory to Clinical equipment as this CTLM® system is being used as a clinical system at the University of Florida.

For the fiscal year ending June 30, 2011, we reclassified the net realizable value of $6,525 of CTLM® systems in Inventory to Clinical equipment.

For the fiscal year ending June 30, 2012, we reclassified the net realizable value of $11,928 from Clinical Equipment to Consignment Inventory.

The estimated useful lives of property and equipment for purposes of computing depreciation and amortization are:

Furniture, fixtures, clinical, computers, laboratory equipment and trade show equipment	5-7 years
Building	40 years
CTLM® software costs	5 years

Telephone equipment, acquired under a long-term capital lease at a cost of $50,289, is included in furniture and fixtures. The CTLM® software is fully amortized.

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NOTE 15 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following:

	Mar. 31, 2013	June 30, 2012
Accounts payable - trade	$ 815,393	$ 928,385
Accrued tangible personal property taxes payable	6,000	6,000
Accrued compensated absences	41,417	41,417
Accrued wages, payroll taxes and penalties	2,050,092	2,100,436
Other accrued expenses	157,023	141,740
Totals	$ 3,069,925	$ 3,217,978

As of March 31, 2013, we owe $725,639 in accrued wages and $1,324,453 in accrued payroll taxes. The $1,324,453 in accrued payroll taxes represents unfunded payroll taxes, interest and penalties commencing with the quarter ending March 31, 2010. The reason we incurred the penalties and interest was due to the difficulty in raising capital to have sufficient funds to pay the taxes.

From May 2010 to June 2012, claims were made by the IRS for payment of our accrued payroll taxes, interest and penalties, which as of June 30, 2012 was $1,489,640. We engaged tax counsel to handle this matter and intend to fully satisfy our tax obligations. In order to qualify for an IRS Installment Agreement, we must be current in our payment of payroll taxes in the period they are due. We have paid all of our payroll taxes payable for the calendar year 2012.

The IRS sent formal collection demands for each quarter we were delinquent in payment of payroll taxes beginning with the quarter ending March 31, 2010. On November 22, 2011, the IRS filed a lien with the Secretary of State of Florida in Tallahassee, Florida totaling $779,996. Subsequently, on February 2, 2012, the IRS filed a lien with the Secretary of State of Florida in Tallahassee, Florida totaling $140,439; and on June 28, 2012, the IRS filed a lien with the Secretary of State of Florida in Tallahassee, Florida totaling $1,479. Our tax counsel negotiated an Installment Agreement to make installment payments to satisfy outstanding taxes, penalties and interest due. The Installment Agreement states that we must pay $15,000 a month for 12 months with the first payment due by November 28, 2012; $20,000 a month for 12 months beginning November 28, 2013; and $25,000 a month for 12 months beginning November 28, 2014 until such time as the balance owed is paid in full. In the event that we are able to pay off the balance due to the IRS, our tax counsel would attempt to negotiate a waiver on the penalties.

From July 1, 2012 through March 31, 2013, we have made payments to the IRS totaling $230,490. We have paid all of our payroll taxes payable for the calendar year 2012 and 2013. Of the $230,490, we made two $15,000 payments totaling $30,000 during the quarter ending December 31, 2012 and three $15,000 payments totaling $45,000 during the quarter ending March 31, 2013 as per our Installment Agreement. We paid accrued payroll taxes totaling $67,359 for the quarter ending March 31, 2012 and $21,134 for the quarter ending June 30, 2012. We paid a total of $33,091 in payroll taxes for the quarter ending September 30, 2012; $14,368 for the quarter ending December 31, 2012; and $18,927 for the quarter ending March 31, 2013.

If we ultimately are unable to pay the outstanding payroll tax, penalties and interest on a timetable pursuant to the terms of the Installment Agreement, we may have to cease operations.

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NOTE 16 – SUBSEQUENT EVENTS

On May 1, 2013, our Board of Directors appointed Elizabeth J. Shotmeyer to serve on our Board. Ms. Shotmeyer, prior to her appointment as a Director, had loaned the Company a principal amount of $91,950. At the time these loans were made Ms. Shotmeyer was deemed an unaffiliated third party investor. Immediately upon her appointment she became an affiliated party. The appointment of Ms. Shotmeyer will fill one vacancy on our Board of Directors. Ms. Shotmeyer was appointed to the Compensation Committee. Ms. Shotmeyer has held executive positions in the oil, gas, and real estate sectors for over 40 years, from 1964-2004. She has held several roles such as Director and Vice President at United States Oil Corporation and related companies, located in New Jersey. She has owned and operated oil tank farms in New York, Delaware and Virginia. Ms. Shotmeyer is currently the owner of Shotmeyer Enterprises LLC and Big Shot Communications located in Florida. She has served on various boards from 1989-1993, including but not limited to the Board of Directors for Children's Museum of Boca Raton. In 1972, Ms. Shotmeyer earned her B.A. in English (Pre Law) from University of La Verne, Pomona, CA. Ms. Shotmeyer witnessed her mother's struggle with breast cancer, a devastating battle that resulted in her mother's demise. As a result, she is a firm believer of innovative methods of early detection. Ms. Shotmeyer is appointed to serve as a director until our 2013 annual meeting of shareholders or until her earlier resignation or removal.

In April 2013, we received $8,000 from Linda Grable, our CEO and Chairman of the Board, pursuant to a short-term promissory note. Ms. Grable is deemed an affiliated party. The note provides for a redemption premium of 15% of the principal amount on or before March 31, 2014. Interest will accrue at 8% per annum until maturity above and beyond the premium. Ms. Grable may elect at any time to convert any part or all of the $8,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice.

In April 2013, we received $10,000 from a private investor pursuant to a short-term promissory note with a maturity date of April 2, 2014. The note provides for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $10,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In April 2013, we received $32,500 from Asher Enterprises pursuant to a short-term promissory note due on or before January 14, 2014. We received net proceeds of $30,000 after deductions of $2,500 for legal fees. Interest will accrue at 8% per annum until maturity above and beyond the premium. Asher Enterprises may elect at any time after 180 days to convert any part or all of the $32,500 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 58% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. We reserved 2,662,000,000 shares of our common stock in connection with this loan.

On April 25, 2013, the private investor sold $16,000 Principal of his $16,000 note to Tangiers Investment Group LLC. The full sale of the note was for $21,916 ($16,000 Principal, $4,000 Premium and $1,916 Interest). On April 25, 2013, we entered into a new Promissory Note with Tangiers Capital for $21,916 in Principal with a maturity date of April 24, 2014. Interest will accrue at 15% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $21,916 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

On April 25, 2013, the private investor sold $11,648 Principal of his $22,000 note to Tangiers Investment Group LLC. The full sale of the note was for $18,084 ($11,648 Principal, $3,947 Premium and $2,489 Interest). On April 25, 2013, we entered into a new Promissory Note with Tangiers Capital for $18,084 in Principal with a maturity date of April 24, 2014. Interest will accrue at 15% per annum until maturity above and beyond the premium. The holder

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may elect at any time to convert any part or all of the $18,084 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In April 2013, we received $20,000 from Tangiers Investment Group, LLC ("Tangiers") pursuant to a short-term promissory note due on or before April 24, 2014. We received net proceeds of $15,000 after deductions of $2,500 for legal fees and $2,500 for a consulting fee. Interest will accrue at 15% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $20,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In April 2013, we received $5,000 from Redwood Management LLC ("Redwood") pursuant to a $125,000 short-term promissory note dated January 18, 2013. The terms of the note provide that the Redwood will pay $25,000 every 30 days from execution of the note until the entire $125,000 is paid in full. The note provides a maturity date of January 18, 2014. Interest will accrue at 12% per annum on the aggregate unconverted outstanding principal amount. Redwood may elect at any time to convert any part or all of the outstanding balance plus interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the fifteen trading days immediately prior to the date of the conversion notice.

Debt to Equity Conversions:

On April 1, 2013, Southridge executed a partial debt to equity conversion of a $30,000 short-term promissory note dated September 5, 2012 in which they converted $14,990 principal and $66 in interest. We issued Southridge 23,163,689 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00065 per share.

On April 1, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $5,500 principal. We issued Redwood 9,166,667 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0006 per share.

On April 2, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $4,628 principal. We issued Tangiers 9,256,920 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0005 per share.

On April 4, 2013, WHC Capital LLC executed a partial debt to equity conversion of the $10,000 short-term promissory note originally dated November 20, 2009 and purchased on March 22, 2013 from a private investor, in which they converted $6,864 in premium. We issued WHC Capital LLC 17,160,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.004 per share.

On April 5, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $8,169 principal. We issued Tangiers 32,676,600 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0005 per share.

On April 5, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $2,600 principal. We issued Redwood 9,454,545 common shares pursuant to Rule 144 based on an agreed conversion price of $0.000275 per share.

On April 5, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $4,015 principal. We issued Magna 14,600,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.000275 per share.

On April 8, 2013, Southridge executed a partial debt to equity conversion of a $30,000 short-term promissory note dated September 5, 2012 in which they converted $9,240 principal and $25 in interest. We issued Southridge 23,161,811 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0004 per share. On April 24, 2013 we issued Southridge an additional 13,897,087 shares because the closing bid price on the clearing date fell below the Initial closing bid price.

On April 9, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $4,380 principal. We issued Magna 19,909,091 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00022 per share.

On April 9, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $7,626 principal. We issued Tangiers 38,129,900 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0002 per share.

On April 15, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $7,577 principal. We issued Tangiers 50,513,800 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00015 per share.

On April 18, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $3,200 principal. We issued Redwood 29,090,909 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00011 per share.

On April 19, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $6,600 principal. We issued Magna 60,000,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00011 per share.

On April 19, 2013, Panache executed a partial debt to equity conversion of a $25,000 short-term promissory note dated September 6, 2012 in which they converted $5,920 principal. We issued Panache 59,200,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0006 per share.

On April 22, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $5,396 principal. We issued Tangiers 53,964,900 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0001 per share.

On April 23, 2013, Levin Consulting Group executed a partial debt to equity conversion of the $70,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $6,500 principal and $349 in interest. We issued Levin Consulting Group 68,493,200 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0001 per share.

On April 23, 2013, SGI Group executed a final debt to equity conversion of a $95,000 Promissory Note originally dated August 15, 2012 which they purchased $10,000

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Principal from Southridge on February 11, 2013, in which they converted $3,300 principal and $85 in interest. We issued SGI Group 33,853,200 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0001 per share. On April 24, 2013 we issued SGI Group an additional 33,835,200 shares because the closing bid price on the clearing date fell below the Initial closing bid price.

On April 23, 2013, SGI Group executed a partial debt to equity conversion of a $15,000 short-term promissory note dated August 20, 2012 in which they converted $3,250 principal and $220 in interest. We issued SGI Group 34,698,300 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0001 per share. On April 24, 2013 we issued SGI Group an additional 34,698,300 shares because the closing bid price on the clearing date fell below the Initial closing bid price.

On April 24, 2013, Southridge executed a final debt to equity conversion of a $30,000 short-term promissory note dated September 5, 2012 in which they converted $1,015 principal and $2 in interest. We issued Southridge 5,086,123 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0002 per share.

On April 24, 2013, Southridge executed a partial debt to equity conversion of a $30,000 short-term promissory note dated September 19, 2012 in which they converted $3,485 principal and $1,427 in interest. We issued Southridge 49,118,493 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0001 per share.

On April 24, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $4,300 principal. We issued Redwood 39,090,909 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00011 per share.

On April 26, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $4,000 principal. We issued Tangiers 79,995,200 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00005 per share.

On April 29, 2013, Linda Grable, our CEO and Chairman of the Board, executed a debt to equity conversion of an $8,000 short-term promissory note dated April 1, 2013 in which she converted $8,000 principal. We issued Linda Grable 80,000,000 restricted common shares pursuant to Rule 144 based on an agreed conversion price of $0.0001 per share. Ms. Grable is deemed an affiliated party.

On April 30, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $6,600 principal. We issued Magna 120,000,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.000055 per share.

On April 30, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $5,485 principal. We issued Tangiers 109,696,200 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00005 per share.

On May 3, 2013, WHC Capital LLC executed a final debt to equity conversion of the $10,000 short-term promissory note originally dated November 20, 2009 and purchased on March 22, 2013 from a private investor, in which they converted $3,136 in premium and $56 in interest. We issued WHC Capital LLC 63,847,600 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00005 per share.

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On May 6, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $6,633 principal. We issued Tangiers 132,663,600 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00005 per share.

On May 8, 2013, Southridge executed a partial debt to equity conversion of a $30,000 short-term promissory note dated September 19, 2012 in which they converted $4,065 principal and $46 in interest. We issued Southridge 82,229,841 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00005 per share.

On May 9, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $3,998 principal. We issued Redwood 79,960,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00005 per share.

On May 9, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $11,000 principal. We issued Magna 200,000,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.000055 per share.

On May 10, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $9,221 principal. We issued Tangiers 184,425,800 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00005 per share.

All debt conversions were consummated at the contractual terms agreed upon for each loan. Accordingly, there was no gain/loss on conversions.

As of the date of this report, we owe a total of $1,760,386 of short term debt of which $1,129,436 is principal, $571,018 is accrued premium and $59,931 is accrued interest. We have repaid aggregate principal and premium in the amount of $173,376 on these short-term notes and a total of $2,964,632 principal, $450,830 in premium, and $91,701 in interest has been converted into 2,159,559,970 shares of our common stock of which 103,606 shares were collateral shares and 2,159,559,970 new shares were issued pursuant to Rule 144. Out of the original 103,606 shares of common stock held as collateral, a balance of 7,122 shares remains on the $85,985 principal of the remaining notes.

As of the date of this report, we owe a total of $12,263 in long-term debt. Of the $12,263 we owe a total of $10,000 in principal, $1,250 is consideration on the principal and $1,013 is interest.

As of the date of this report, if all of the outstanding convertible promissory notes totaling $1,772,649 were converted based on the closing bid price of $0.0001, we would be required to issue approximately 25 billion shares. Based on the 2,124,402,540 current issued and outstanding shares and our current authorized of 10 billion shares, we would require an additional 17 billion authorized shares to satisfy the potential conversions.

We have evaluated all subsequent events for disclosure purposes.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY STATEMENTS

The following discussion of the financial condition and results of operations of Imaging Diagnostic Systems, Inc. should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations; the Condensed Financial Statements; the Notes to the Financial Statements; the Risk Factors included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2012, which are incorporated herein by reference; and all our other filings, including Current Reports on Form 8-K, filed with the SEC through the date of this report. This quarterly report on Form 10-Q contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements using terminology such as "may," "will," "expects," "plans," "anticipates," "estimates," "projects", "potential," or "continue," or the negative or other comparable terminology regarding beliefs, plans, expectations, or intentions regarding the future. These forward-looking statements involve substantial risks and uncertainties, and actual results could differ materially from those discussed and anticipated in such statements. These forward-looking statements include, among others, statements relating to our business strategy, which is based upon our interpretation and analysis of trends in the healthcare treatment industry, especially those related to the diagnosis and treatment of breast cancer, and upon management's ability to successfully develop and commercialize its principal product, the CTLM®. This strategy assumes that the CTLM® will provide benefits, from both a medical and an economic perspective, to alternative techniques for diagnosing and managing breast cancer. Factors that could cause actual results to materially differ include, without limitation, the timely and successful submission of our U.S. Food and Drug Administration ("FDA") application to obtain marketing clearance; manufacturing risks relating to the CTLM®, including our reliance on a single or limited source or sources of supply for some key components of our products as well as the need to comply with especially high standards for those components and in the manufacture of optical imaging products in general; uncertainties inherent in the development of new products and the enhancement of our existing CTLM® product, including technical and regulatory risks, cost overruns and delays; our ability to accurately predict the demand for our CTLM® product as well as future products and to develop strategies to address our markets successfully; the early stage of market development for medical optical imaging products and our ability to gain market acceptance of our CTLM® product by the medical community; our ability to expand our international distributor network for both the near and longer-term to effectively implement our globalization strategy; our dependence on senior management and key personnel and our ability to attract and retain additional qualified personnel; our ability to obtain financing and the risks relating to financing utilizing convertible promissory notes, convertible debentures, convertible preferred stock, private equity credit agreements or other working capital financing arrangements; technical innovations that could render the CTLM® or other products marketed or under development by us obsolete; competition; risks and uncertainties relating to intellectual property, including claims of infringement and patent litigation; risks relating to future acquisitions and strategic investments and alliances; and reimbursement policies for the use of our CTLM® product and any products we may introduce in the future. There are also many known and unknown risks, uncertainties and other factors, including, but not limited to, technological changes and competition from new diagnostic equipment and techniques, changes in general economic conditions, healthcare reform initiatives, legal claims, regulatory changes and risk factors detailed from time to time in our Securities and Exchange Commission filings that may cause these assumptions to prove incorrect and may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These risks and uncertainties include, but are not limited to, those described above or elsewhere in this quarterly report. All forward-looking statements and risk factors included in this document or incorporated by reference from our Annual Report on Form 10-K for the fiscal year ended June 30, 2012, are made as of the date of this report based on information available to us as of the date of this report, and we assume no obligation to update any forward-looking statements or risk factors. You are cautioned not to place undue reliance on these forward-looking statements.

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OVERVIEW

Imaging Diagnostic Systems, Inc. ("IDSI") is a development stage medical technology company. Since inception in December 1993, we have been engaged in the development and testing of a laser breast imaging system that uses computed tomography and laser techniques designed to detect breast abnormalities. The CT Laser Mammography system ("CTLM®") is currently being commercialized in certain international markets where regulatory approvals have been obtained. However, it is not yet approved for sale in the U.S. market. The CTLM® system must obtain marketing clearance through the U.S. Food and Drug Administration ("FDA") before commercialization can begin in the U.S. market.

Our financial statements have been prepared assuming that we will continue as a going concern. Our auditors, in their report for the fiscal year ended June 30, 2012, stated that we have incurred recurring operating losses and will have to obtain additional capital to sustain operations. These conditions raise substantial doubt about our ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2 "Going Concern", in the Notes to the Financial Statements. The accompanying financial statements to this Annual Report do not include any adjustments to reflect the possible effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Originally, the FDA determined the CTLM® to be a "new medical device" for which there was no predicate device and designated it as a Class III medical device. Consequently; the CTLM® was required to go through the FDA Premarket approval ("PMA") application process. In May 2003 we filed a PMA application for the CTLM® with the FDA. In August 2003, we received a letter from the FDA citing deficiencies in our PMA application requiring a response to the deficiencies. We initially planned on submitting an amendment to the PMA application to resolve the deficiencies and requested an extension. In March 2004 we received an extension to respond with the amendment; however, in October 2004, we made a decision to voluntarily withdraw the original PMA application and resubmit a modified PMA in a simpler and more clinically and technically robust filing.

In November 2004, we received a letter from the FDA stating that the CTLM® study has been declared a Non-Significant Risk ("NSR") study when used for our intended use.

In 2005, we initiated the PMA process by designing a new clinical study protocol and a modified intended use, which limited the participants in the study to patients with dense breast tissue. The inclusion criteria was modified because we believed that we would be more successful in proving our hypothesis of the CTLM® system's intended use and have the most success at obtaining marketing clearance from the FDA. Concurrently, we identified qualified clinical sites and retained them to proceed with our clinical study.

In 2006, we made changes to bring the CTLM® system to its most current design level. We believe these changes improved the CTLM®'s image quality and reliability. Upgraded CTLM® systems were installed at our U.S. clinical sites and data collection proceeded in accordance with our clinical protocol. The data collection continued from 2006 to 2010, progressing slowly due to low patient volume pursuant to the inclusion criteria of our clinical protocol.

We announced in March 2009 that our research and development team achieved a technical breakthrough with a new reconstruction algorithm that improved the visualization of angiogenesis in the CTLM® images. Angiogenesis is the process in which new blood vessels are formed in response to a chemical signal sent out by cancerous tumors. The CTLM visualizes the blood distribution in the breast, to detect the new blood vessels (angiogenesis) required for cancerous lesions to grow. The improved algorithm enhances the images by reducing the number of artifacts occasionally produced during an examination, thereby making diagnosis easier. We also incorporated streamlined numerical methods into the software so that the new algorithm does not require additional computing resources, allowing us to provide the improved functionality to existing customers as a software upgrade.

As of May 2009, 10 clinical sites had participated in the clinical trials and at the time we believed we had sufficient clinical data to support our PMA application. However, we did not have sufficient financing to support the clinical sites, initiate the reading phase, the statistical analysis study and the submission of the PMA application to the FDA.

Through the years, new MRI and other dedicated breast imaging systems gained FDA marketing clearance pursuant to applications under the FDA's Section 510(k) premarket notification of intent to market (a "Section 510(k) premarket notification"). In the last several years, the De Novo 510(k) process became an alternate pathway for new technologies with low to moderate risk an opportunity to seek FDA marketing clearance through this simpler process. In addition, laser safety data and clinical safety and efficacy data were obtained through previous clinical trials to support an FDA application through the traditional 510(k) process. We believe our CTLM® system is of low to moderate risk due to the series of technical studies conducted as well as the series of clinical studies we were engaged in which led the FDA to determine in 2004 that our clinical studies were a Non Significant Risk (NSR) device study.

A Section 510(k) premarket notification is a premarket submission made to the FDA to demonstrate that the device to be marketed is at least as safe and effective as, that is, substantially equivalent to, a legally marketed device that is not subject to PMA. Submitters must compare their device to one or more similar legally marketed devices and make and support their substantial equivalency claims. A legally marketed device is a device that was legally marketed prior to May 28, 1976 for which a PMA is not required, or a device which has been reclassified from Class III to Class II or I, or a device which has been found to be substantially equivalent through the 510(k) process. The legally marketed device(s) to which equivalence is drawn is commonly known as the "predicate" device.

To submit a Section 510(k) premarket notification application, a company must meet the following guidelines:

To demonstrate substantial equivalence to another legally U.S. marketed device, the 510(k) applicant must demonstrate that the new device, in comparison to the predicate:

- ☐ has the same intended use as the predicate; and
- ☐ has the same technological characteristics as the predicate; or

- ☐ has the same intended use as the predicate; and
- ☐ has different technological characteristics when compared to the predicate, and
  - ☐ does not raise new questions of safety and effectiveness; and
  - ☐ demonstrates that the device is at least as safe and effective as the legally marketed device.

One possible outcome resulting from applying for a Section 510(k) premarket notification of intent to market that we believed would have been an option, was the evaluation of automatic class III designation, commonly referred to "De Novo process". The De Novo process is an alternate pathway provided by the FDA to classify certain new devices that had automatically been placed in Class III due to lack of a predicate. The De Novo classification process was created to provide a mechanism for the classification of certain lower-risk devices for which there is no predicate, but would otherwise fall into Class III. The De Novo process is most applicable when the risks of a device are well-understood and appropriate special controls can be established to mitigate those risks.

The de novo process cannot be requested until a Section 510(k) premarket notification has been submitted and the FDA responds with a determination that the device is "not substantially equivalent" (NSE) to the predicate device. The FDA then classifies the applicant devices into Class III designation. Applicants who receive a class III determination from the FDA may request an evaluation for reclassification into Class I or II.

In March 2010, we decided to focus on the possibility of obtaining FDA marketing clearance through a Section 510(k) premarket notification for our CTLM® system instead of a PMA application based on our own research of other medical imaging devices that received a Section 510(k) premarket notification, such as the Aurora MRI Breast Imaging System (the "breast MRI"). Other sources of our research were obtained through reading medical imaging industry publications, the FDA's website, and discussions with attendees at medical imaging trade shows; specifically the Radiological Society of North America in Chicago, IL in November 2009; Arab Health Show in Dubai, UAE in January 2010, and European Congress of Radiology in Vienna, Austria in March 2010. We began

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the process of examining the various potential predicate devices that could be credible to support our Section 510(k) premarket notification application.

In July 2010, we made our decision to select as our predicate device the breast MRI. This decision was made as a result of our examination of comparative clinical images between CTLM® and breast MRI, which are both functional molecular imaging devices having the ability to visualize angiogenesis in the breast. We began preparing the Section 510(k) premarket notification submission and engaged the services of a FDA regulatory consultant to review our preliminary draft and then re-engaged the services of our FDA regulatory counsel to complete the Section 510(k) premarket notification application and to submit it to the FDA.

On November 22, 2010, we submitted a Section 510(k) premarket notification application to the FDA for its review. We believed that the Section 510(k) premarket notification submission was the best process to obtain U.S. marketing clearance in the least burdensome and most timely manner. FDA marketing clearance would enable us to market and sell the CTLM® system throughout the United States. Also, we believed that receipt of U.S. marketing clearance will substantially enhance our ability to sell the CTLM® in the international market.

On January 21, 2011, we received a request for additional information from the FDA regarding our Section 510(k) premarket notification application. A request for additional information is quite common during the FDA review process. Due to the extensive amount of additional information requested, we filed the response to the FDA request on July 8, 2011. Upon receipt of our response at the FDA offices, the FDA 90-day response time clock was re-activated. Consequently, we expected to get either an FDA determination on our Section 510(k) application or another request for additional information within the next 90-day time frame.

On August 2, 2011, we received official notification from the FDA that the review of our Section 510(k) premarket notification application had been completed and that the FDA determined that the device, (CTLM®), is not substantially equivalent to devices marketed in interstate commerce prior to May 28, 1976, the enactment date of the Medical Device Amendments, or to any device which has been reclassified into Class I (General Controls) or Class II (Special Controls), or to another device found to be substantially equivalent through the Section 510(k) process. This decision to deny our application was based on the fact that the FDA was not aware of a legally marketed preamendments device labeled or promoted for using "Diffuse Optical Tomography" (DOT) to image the optical attenuation properties of breast tissue in order to aid the diagnosis of cancer, other conditions, diseases, or abnormalities. Therefore, this device was classified by statute into class III (Premarket Approval), under Section 513(t) of the Federal Food, Drug, and Cosmetic Act (the "Act"). All FDA determined Class III devices must fall under Section 515(a)(2) of the Act (which) requires a class III device to have an approved application (PMA) before it can be legally marketed.

The determination by the FDA that our CTLM® imaging technology will now be recognized as a DOT device and that there are no other DOT devices known to the FDA, presents us with a unique technological opportunity. Essentially, IDSI could be the first medical imaging company to file a PMA application for a Diffuse Optical Tomography breast imaging device. Since the FDA has identified CTLM® as a class III device, a formal clinical study will be required to obtain PMA approval. While we have begun the PMA process and plan to use clinical studies previously collected, if permitted to do so by the FDA, no meaningful progress can be made in this process until we obtain the substantial financing required to cover the costs for any additional new studies that we may need; the cost of a clinical research organization (CRO) to manage the process; the cost of a biostatistician to prepare the statistical report; FDA filing fees; and other costs associated with the PMA process. We believe that we will need at least $1.2 million for this process. A timeline cannot be established until funding is secured. Once funding is secured we plan to collect any additional case studies we may need from our clinical sites. The number of additional cases needed, will be provided by our biostatistician in consultation with the FDA.

In previous filings, management had disclosed the potential to have our CTLM® device approved through the FDA "De Novo" process. This process would only become an option to us if the FDA did not approve our 510(k) premarket notification of intent to market the device. While waiting for a ruling from the FDA on our 510(k) premarket notification of intent to market the CTLM®, management continued to research the advantages and

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disadvantages regarding the potential option to initiate a De Novo application if the FDA determined our traditional 510(k) application to be "Not Substantially Equivalent". Our research identified several articles illustrating the potential pitfalls of going down the De Novo pathway. One such article from Medical Device Consultants (MDCI), a full service contract research organization and consulting firm that helps emerging and established firms commercialize novel and innovative medical devices, dated March 21, 2011(included below) best summarizes the issues that we would face if we choose the De Novo pathway.

"The De Novo process has been around since the implementation of the FDA Modernization Act of 1997 (FDAMA). The FDAMA was intended to help improve the efficiency of bringing low-risk medical devices to market, allowing for simpler reclassification of devices that were classified as Class III due to the lack of a suitable predicate. The section of the FDAMA that handled this aspect of medical device classification (Section 513(f)(2)) became known as the De Novo process.

De Novo is a two-step process that requires a company to submit a 510(k) and complete a standard review, including an analysis of the risk to the patient and operator associate with the use of the device and the substantial equivalence rationale. Once that has been accomplished, and the medical device in question has been determined to be Not Substantially Equivalent (NSE) by the FDA, the product is automatically classified as a Class III device. The manufacturer can then submit a request for evaluation of Automatic Class III designation to have the product reclassified from Class III into Class I or Class II. The FDA will review the device classification proposal and either recommend special controls to create a new Class I or II device classification or determine that the product is a Class III device. If FDA determines that the level of risk associated with the use of the device is appropriate for a Class II or Class I designation, then the product can be cleared as a 510(k) and FDA will issue a new classification regulation and product code. This also adds the device in question to the predicate pool, which in turn broadens the market for other medical device companies considering products in a similar therapeutic area. If the device is not approved through De Novo, then it must go through the standard premarket approval (PMA) process for Class III devices.

The number of FDA NSE determinations due to the lack of a suitable predicate is very low for those low risk medical devices that have the potential for reaching the market via the De Novo process. Medical device manufacturers are attracted to the cost efficiencies associated with the De Novo process when compared against the investment and post-market FDA oversight associated with a PMA. Unfortunately, the time to market for devices eligible for the De Novo process can be very long.

FDAMA calls for the FDA to review and return a decision on a De Novo reclassification submission within 60 days of receipt (the initial submission must be sent by the manufacturer within 30 days of receiving NSE notification). In practice, however, the amount of time taken to review De Novo requests by the FDA and issue the special controls guidance has risen from 62 days in 2006 to 241 days since 2007. Tacked on to the 510(k) review times, devices traveling the De Novo pathway average 482 days of review time from beginning to end.

Further compounding the delays associated with De Novo is the fact that the entire process resembles a procedural "black hole." The FDA is not required to provide any updates concerning the status of a De Novo application, nor is there any simple way for medical device manufacturers to track a De Novo submission on their own.

De Novo is rare in the realm of low-risk medical devices – a mere 54 products took this particular route between 1998 and 2009. Given the extensive delays associated with the process, MDCI advises medical device companies to consider all other market approval pathways before deciding on to pursue a De Novo reclassification."

Prepared by Benjamin Hunting, Cindy Nolte, and Helen Mayfield
MDCI Blogging Team"

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Understanding that the above statements were a fair representation of the regulatory industry's general feelings towards the FDA De Novo process, management decided to accept and heed the FDA's letter (received on August 2, 2011) detailing their decision of CTLM® being "not substantially equivalent" and furthermore, accepting their recommendation that CTLM® is a class III device that would require a PMA submission. Other considerations such as comparing time frames between De Novo and the PMA process were taken into account. The average De Novo application took 482 days to be reviewed compared to the average PMA review of 284 days. In addition, upon further review, both the De Novo and PMA process require virtually identical clinical safety and efficacy data; therefore, the PMA path was chosen. Management has identified potential FDA regulatory consultants who can guide us through the complete PMA application process and is presently in contract negotiations with several prospective consulting firms. We will not be able to engage the services of an FDA consulting firm or a biostatistician until we have a commitment for funding. There can be no assurance that we will obtain this funding.

Progress toward re-submitting a PMA application during Fiscal Year 2012 and the ten months of Fiscal Year 2013 was significantly delayed and then eventually halted simply due to lack of funding to hire the necessary FDA consultants required to assist in the process. Our employees had reached their level of FDA expertise related to preparing the "ground work" for a PMA application submission and could not proceed any further without the expert assistance of FDA consultants.

During the fiscal year ended June 30, 2012, there was a significant reduction in key Company staff due to employee resignations, retirement and layoffs, which reduced operating overhead until additional external funding could be secured. We will not hire replacement staff until such time as we have secured sufficient funding to complete the PMA filing with the FDA. Prior to the reduction in key staff members, an internal PMA application strategy that might allow inclusion of previously collected patient data was developed. This approach (generally referred to as a PMA Protocol) will need to be qualified by our FDA consultants prior to presenting our approach to the FDA Reviewers/Examiners. The forum for this process is generally referred to as an FDA "Pre- IDE" meeting (essentially a pre-clinical meeting) between the Company, its FDA Consultants and the FDA/PMA Examiners. During the "Pre-IDE" meeting, the Company (and its FDA Consultants) would present their approach for data collection, patient selection and data analysis. The FDA Reviewers would provide input (critique and suggestions) to us as to what they believe an acceptable PMA protocol would require. Once agreement is reached by all parties the next logical step is to implement the protocol.

In summary, our management team now believes that the more structured and proven PMA application approach with its semi-rigid timetable for mandatory responses would provide us with the best route to achieve marketing clearance for our innovative new imaging modality that in the future will be classified as Diffuse Optical Tomography.

The CTLM® system is a Diffuse Optical Tomography (DOT) CT-like scanner. Its energy source is a laser beam and not ionizing radiation such as is used in conventional x-ray mammography or CT scanners. The advantages of imaging without ionizing radiation may be significant in our markets. CTLM® is an emerging new imaging modality offering the potential of functional molecular imaging, which can visualize the process of angiogenesis which may be used by the radiologist to distinguish between benign and malignant tissue. X-ray mammography is a well-established method of imaging the breast but has limitations especially in dense breast cases. While x-ray mammography and ultrasound produce two dimensional images (2D) of the breast, the CTLM® produces 3D images. Ultrasound is often used as an adjunct to mammography to help differentiate tumors from cysts or to localize a biopsy site. We believe the CTLM® will be used to provide the radiologist with additional information to manage the clinical case; help diagnose breast cancer earlier; reduce diagnostic uncertainty especially in mammographically dense breast cases; and may help decrease the number of biopsies performed on benign lesions. Because breast cancers nearly always develop in the dense tissue of the breast (not in the fatty tissue), older women

who have mostly dense tissue on a mammogram are at an increased risk of breast cancer. Abnormalities in dense breasts can be more difficult to detect on a mammogram. The CTLM® technology is unique and patented. We intend to develop our technology into a family of related products. We believe these technologies and clinical benefits constitute substantial markets for our products well into the future.

As of the date of this report, we have had no substantial revenues from our operations and have incurred net losses applicable to common shareholders since inception through March 31, 2013 of $121,131,930 after discounts and dividends on preferred stock. We anticipate that losses from operations will continue for at least the next 12 months, primarily due to an anticipated increase in marketing and manufacturing expenses associated with the international commercialization of the CTLM®, expenses associated with our FDA approval process, and the costs associated with advanced product development activities. We will need sufficient financing through the sale of equity or debt securities to complete the approval process and, in the event that we obtain marketing clearance, to have sufficient funding to launch the CTLM® in the U.S. There can be no assurance that we will obtain this financing. Finally, there can be no assurance that we will obtain FDA marketing clearance, that the CTLM® will achieve market acceptance or that sufficient revenues will be generated from sales of the CTLM® to allow us to operate profitably.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to customer programs and incentives, inventories, and intangible assets. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those involving significant judgments and uncertainties which could potentially result in materially different results under different assumptions and conditions. Application of these policies is particularly important to the portrayal of the financial condition and results of operations. We believe the accounting policy described below meets these characteristics. All significant accounting policies are more fully described in the notes to the financial statements included in our annual report on Form 10-K for the fiscal year ended June 30, 2012.

Inventory

Our inventories consist of raw materials, work-in-process and finished goods, and are stated at the lower of cost (first-in, first-out) or market. As a designer and manufacturer of high technology medical imaging equipment, we may be exposed to a number of economic and industry factors that could result in portions of our inventory becoming either obsolete or in excess of anticipated usage. These factors include, but are not limited to, technological changes in our markets, our ability to meet changing customer requirements, competitive pressures in products and prices and reliability, replacement and availability of key components from our suppliers. We evaluate on a quarterly basis, using the guidance provided in ASC 330 ("Inventory"), our ability to realize the value of our inventory based on a combination of factors including the following: how long a system has been used for demonstration or clinical collaboration purpose; the utility of the goods as compared to their cost; physical obsolescence; historical usage rates; forecasted sales or usage; product end of life dates; estimated current and future market values; and new product introductions. Assumptions used in determining our estimates of future product demand may prove to be incorrect, in which case excess and obsolete inventory would have to be adjusted in the future. If we determined that inventory was overvalued, we would be required to make an inventory valuation adjustment at the time of such determination. Although every effort is made to ensure the accuracy of our forecasts

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of future product demand, significant unanticipated changes in demand could have a significant negative impact on the value of our inventory and our reported operating results. Additionally, purchasing requirements and alternative usage avenues are explored within these processes to mitigate inventory exposure.

Stock-Based Compensation

The computation of the expense associated with stock-based compensation requires the use of a valuation model. ASC-718, ("Compensation-Stock Compensation") is a very complex accounting standard, the application of which requires significant judgment and the use of estimates, particularly surrounding Black-Scholes assumptions such as stock price volatility, expected option lives, and expected option forfeiture rates, to value equity-based compensation. The Company currently uses a Black-Scholes option pricing model to calculate the fair value of its stock options. The Company primarily uses historical data to determine the assumptions to be used in the Black-Scholes model and has no reason to believe that future data is likely to differ materially from historical data. However, changes in the assumptions to reflect future stock price volatility and future stock award exercise experience could result in a change in the assumptions used to value awards in the future and may result in a material change to the fair value calculation of stock-based awards. ASC-718 requires the recognition of the fair value of stock compensation in net income. Although every effort is made to ensure the accuracy of our estimates and assumptions, significant unanticipated changes in those estimates, interpretations and assumptions may result in recording stock option expense that may materially impact our financial statements for each respective reporting period.

Impact of Derivative Accounting

As a result of recent financing transactions we have entered into, our financial statements for the year ended June 30, 2011 and future periods have and will be impacted by the accounting effect of the application of derivative accounting. The application of EITF 07-05 "*Determining Whether an Instrument (or Embedded Feature) is Indexed to a Company's Own Stock,*" which was effective on January 1, 2009 will significantly affect the application of ASC Topic 815 and ASC Topic 815-40 for both freestanding and embedded derivative financial instruments in our financial statements. Generally, warrants, conversion features in debt, and similar terms that include "full-ratchet" or reset provisions, which mean that the exercise or conversion price adjusts to pricing in subsequent sales or issuances, no longer meet the definition of indexed to a company's own stock and are not exempt from equity classification provided in ASC Topic 815-15. This means that instruments that were previously classified in equity are reclassified to liabilities and ongoing measurement under ASC Topic 815. The amount of quarterly non-cash gains or losses we will record in future periods will be based upon the fair market value of our common stock on the measurement date.

RESULTS OF OPERATIONS

SALES AND COST OF SALES

We are continuing to develop our international markets through our global commercialization program. In the quarter ended March 31, 2013, we recorded revenues of $1,238 representing a decrease of $161,962 from $163,200 during the quarter ended March 31, 2012. The Cost of Sales during the quarter ended March 31, 2013, were $517 representing a decrease of $29,304 or 98% from $29,821 during the quarter ended March 31, 2012. The revenue of $1,238 and cost of sales of $517 is from the sale of replacement parts to our distributors.

Revenues for the nine months ended March 31, 2013, were $27,238 representing a decrease of $184,482 or 87% from $211,720 in the corresponding period in 2012. The Cost of Sales during the nine months ended March 31, 2013, was $4,189 representing a decrease of $31,706 or 88% from $35,895 in the corresponding period in 2012. Of the revenue of $27,238 and cost of sales of $4,189, the revenue of $25,000 and cost of sales of $3,672 is from the

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installment sale of our CTLM® system to one of our distributors and the revenue of $1,238 and cost of sales of $517 is from the sale of parts and servicing the CTLM® to our distributors. This sale represented one new CTLM® System sold during the nine months ended March 31, 2013.

Other Income for the three and nine months ended March 31, 2013, was $18,704 and $73,330. Of the $18,704, $18,000 represented the extinguishment of debt and $704 represented the use of our facilities by Bioscan and consulting with our engineers pursuant to the Bioscan Agreement (See Part II, Item 5, Other Information, "Laser Imager for Lab Animals"). Of the $73,330, $71,219 represented the extinguishment of debt and $2,111 represented the use of our facilities by Bioscan and consulting with our engineers pursuant to the Bioscan Agreement.

GENERAL AND ADMINISTRATIVE

General and administrative expenses during the three and nine months ended March 31, 2013, were $263,025 and $701,702, respectively, representing decreases of $178,979 or 40% and $1,152,523 or 62%, from $442,004 and $1,854,225 in the corresponding periods in 2012. Of the $263,025, compensation and related benefits comprised $158,054 (60%) compared to $284,874 (64%), during the three months ended March 31, 2012. Of the $158,054 and $284,874 compensation and related benefits, $0 (0%) and $7,819 (3%), respectively, were due to non-cash compensation related to expensing stock options.

Of the $701,702, compensation and related benefits comprised $264,630 (38%), compared to $889,813 (48%), during the nine months ended March 31, 2012. Of the $264,630 and $889,813 compensation and related benefits, $24,400 (9%) and $10,656 (1%), respectively, were due to non-cash compensation related to expensing stock options.

The three-month decrease of $178,979 is due primarily from $126,820 in compensation and related benefits as a result of a reduction of staff; $50,345 in premium expenses associated with the short-term promissory notes; $8,757 in payroll tax penalty and interest expense; $6,037 in cell phone expenses; $3,903 in additional consideration expense associated with our short-term promissory notes; and $2,800 in accounting expenses. The decreases were partially offset by an increase of $20,897 in legal expenses involving corporate and securities matters.

The nine-month decrease of $1,152,523 is a net result. The significant decreases of $625,183 in compensation and related benefits as a result of a reduction of staff and the executives not accruing any compensation for two of the three quarters; $177,371 in premium expense due to a reduction in the principal amount of new short-term promissory notes issued during the quarter; $119,500 in original issue discounts associated with our short-term promissory notes; $71,407 in payroll tax penalty and interest expense; $34,189 in consulting expenses; $26,026 in cell phone expenses ; $20,300 in accounting expenses; $13,968 in Directors and Officers' Liability insurance; $13,793 in rent expense; $10,822 in legal fees for the maintenance of patents; $9,390 in additional consideration expense associated with our short-term promissory notes; and $7,153 in additional consideration expense associated with our short-term promissory notes.

We do not expect a material increase in our general and administrative expenses until we realize significant revenues from the sale of our product.

RESEARCH AND DEVELOPMENT

Research and development expenses during the three and nine months ended March 31, 2013, were $33,002 and $115,082, respectively, representing decreases of $94,480 or 74% and $412,552 or 78%, from $127,482 and $527,634 in the corresponding periods in 2012. Of the $33,002, compensation and related benefits comprised $30,627 (93%), compared to $134,382 (105%) during the three months ended March 31, 2012. Of the $30,627 and $134,382 compensation and related benefits, $0 (0%) and $758 (1%), respectively, were due to non-cash compensation related to expensing stock options.

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Of the $115,082, compensation and related benefits comprised $108,972 (95%), compared to $479,175 (91%) during the nine months ended March 31, 2012. Of the $108,972 and $479,175 compensation and related benefits, $2,275 (13%) and $2,275 (1%), respectively, were due to non-cash compensation related to expensing stock options.

The three-month decrease of $94,480 is due primarily to a decrease of $103,755 in compensation and related benefits due to a reduction in staff which was partially offset by an increase of $11,375 in consulting expenses.

The nine-month decrease of $412,552 is due primarily to decreases of $370,203 in compensation and related benefits due to a reduction in staff; $15,450 in consulting expenses; $4,558 in legal expenses associated with patent applications and $3,931 in legal expenses involving FDA matters.

Provided that we are able to obtain sufficient funding to move forward with the FDA process, we would expect a significant increase in our research and development expenses during the fiscal year ending June 30, 2013 due to increased costs associated with conducting a clinical study to obtain additional case studies and preparing the FDA application for Pre-Market Approval for submission to the FDA. We would also expect our consulting expenses and professional fees to increase due to the costs associated with conducting the clinical trial and preparing the FDA application. These increases will also be reflected in the subsequent fiscal year ending June 30, 2014. See Item 5. Other Information. CTLM® Development History, Regulatory and Clinical Status.

SALES AND MARKETING

Sales and marketing expenses during the three and nine months ended March 31, 2013, were $31,241 and $83,388, respectively, representing decreases of $64,411 or 67% and $297,138 or 78%, from $95,962 and $380,526 in the corresponding periods in 2012. Of the $31,241, compensation and related benefits comprised $18,630 (60%), compared to $18,813 (23%) during the three months ended March 31, 2012. Of the $18,630 and $18,813 compensation and related benefits, $0 (0%) and $113 (1%), respectively, were due to non-cash compensation related to expensing stock options.

Of the $83,388, compensation and related benefits comprised $56,489 (68%), compared to $57,050 (15%) during the nine months ended March 31, 2012. Of the $56,489 and $57,050 compensation and related benefits, $4,000 (7%) and $338 (1%), respectively, were due to non-cash compensation related to expensing stock options.

The three-month decrease of $64,411 is primarily due to decreases of $11,441 in travel expenses; $11,250 in trade show expenses; $2,185 in public relations expense (cost of issuing press releases); $9,566 in regulatory expenses; and a reduction of bad debt expense totaling $26,250.

The nine-month decrease of $297,138 is primarily due to decreases of $126,123 in trade show expenses; $68,409 in travel expenses; $12,098 in advertising and promotion; $11,851 in public relations expense (cost of issuing press releases); $10,923 in freight expenses ; $8,667 in regulatory expenses; and a reduction of bad debt expense totaling $43,913.

Due to cost saving initiatives instituted because of our inability to secure sufficient funding, we had to curtail implementation of our global commercialization program. If and when we obtain funding, the funds will be used primarily for the costs associated with the PMA. However, we will budget funds for support of our international distributors. As the distributor network develops, we anticipate sales which will result in increases in commissions, trade show expenses, advertising and promotion and travel and subsistence costs due to this program.

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AGGREGATED OPERATING EXPENSES

In comparing our total operating expenses (general and administrative, research and development, sales and marketing, inventory valuation adjustments and depreciation and amortization) in the three months ended March 31, 2013 and 2012, which were $338,977 and $683,033 respectively, we had a decrease of $344,056 or 50%.

In comparing our total operating expenses (general and administrative, research and development, sales and marketing, inventory valuation adjustments and depreciation and amortization) in the nine months ended March 31, 2013 and 2012, which were $937,625 and $2,824,915 respectively, we had a decrease of $1,887,290 or 67%.

The decrease of $344,056 in the three-month comparative period was primarily due to decreases of $178,979 in general and administrative expenses; $94,480 in research and development expenses, $64,411 in sales and marketing expenses and $2,535 in depreciation and amortization.

The decrease of $1,887,290 in the nine-month comparative period was primarily due to decreases of $1,152,523 in general and administrative expenses; $412,552 in research and development expenses; $297,138 in sales and marketing expense; and $12,802 in depreciation and amortization.

We expect a significant increase in our research and development expenses during the fiscal year ending June 30, 2013 due to increased costs associated with conducting the clinical trial and preparing the FDA application for Pre-Market Approval and submitting it to the FDA. We also expect our consulting expenses and professional fees to increase due to the costs associated with conducting the clinical trial and preparing the FDA application.

Inventory Valuation Adjustments during the three and nine months ended March 31, 2013, were $1,927 and $8,108, respectively, representing decreases of $3,651 or 65% and $12,275 or 60%, from $5,578 and $20,383, respectively, during the three and nine months ended March 31, 2012. The fluctuations were due to the write-down of systems that have lost value to due usage as demonstrators on consignment.

Compensation and related benefits during the three and nine months ended March 31, 2013, were $207,312 and $430,091, respectively, representing decreases of $230,758 or 53% and $995,947 or 70% from $438,069 and $1,426,038, respectively, during the three and nine months ended March 31, 2012. Of the $207,312 and $430,091compensation and related benefits, $0 (0%) and $42,671 (10%), respectively, were due to non-cash compensation associated with expensing stock options, which were a decrease of $8,690 or 100% and an increase of $29,402 or 222% from $8,690 and $13,269 during the three and nine months ended March 31, 2012.

Interest expense during the three and nine months ended March 31, 2013, was $291,596 and $654,945, respectively, representing an increase of $94,768 or 48% and a decrease of $436,213 or 40% from $196,828 and $1,091,158, respectively, during the three and nine months ended March 31, 2012. Of the $291,596 and $654,945, respectively, $264,557 and $591,236 is associated with the amortization of the debt discount on the convertible notes at below market prices on the Short-Term and Long-Term Promissory Notes during three and nine months ended March 31, 2013. See Part II. Item 5. Other Information – "Financing/Equity Line of Credit".

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BALANCE SHEET DATA

Our combined cash and cash equivalents totaled $31,707 as of March 31, 2013. This is an increase of $30,084 from $1,623 as of June 30, 2012. During the quarter ending March 31, 2013, we received no cash from the sale of common stock through our private equity agreement with Southridge, and we received a net of $292,650 from short term loans and a net of $0 from long-term loans. See Part II. Item 5, – "Financing/Equity Line of Credit"

We do not expect to generate a positive internal cash flow for at least the next 12 months due to increased costs associated with conducting the clinical trial and preparing the FDA application for Pre-Market Approval and submitting it to the FDA, an anticipated increase in marketing and manufacturing expenses associated with the international commercialization of the CTLM®, and the costs associated with product development activities and the time required for homologations from certain countries.

Property and Equipment was valued at $119,939 net as of March 31, 2013. The overall decrease of $11,213 from June 30, 2012 is due primarily to depreciation recorded for the first, second and third quarter.

LIQUIDITY AND CAPITAL RESOURCES

We are currently a development stage company, and our continued existence is dependent upon our ability to resolve our liquidity problems, principally by obtaining additional debt and/or equity financing. We have yet to generate a positive internal cash flow, and until significant sales of our product occur, we are mostly dependent upon debt and equity funding from outside investors. In the event that we are unable to obtain debt or equity financing or are unable to obtain such financing on terms and conditions acceptable to us, we may have to cease or severely curtail our operations. This would materially impact our ability to continue as a going concern.

Since inception we have financed our operating and research and product development activities through several Regulation S and Regulation D private placement transactions, with loans from unaffiliated third parties, and through a sale/lease-back transaction involving our former headquarters facility. Net cash used for operating and product development expenses during the nine months ending March 31, 2013, was $687,566, primarily due to the costs of wages and related benefits, legal and consulting expenses, research and development expenses, clinical expenses, and travel expenses associated with clinical and sales and marketing activities. At March 31, 2013, we had working capital of $(4,837,649) compared to working capital of ($5,650,805) at June 30, 2012.

During the third quarter ending March 31, 2013, we did not raise any money through the sale of shares of common stock pursuant to our Amended Private Equity Credit Agreement with Southridge dated January 7, 2010 and we received a net of $292,650 from short-term loans and a net of $0 from long-term loans. See Item 5. Other Information "Financing – Equity Line of Credit." We do not expect to generate a positive internal cash flow for at least the next 12 months due to limited expected sales and the expected costs of commercializing our initial product, the CTLM®, in the international market and the expense of continuing our ongoing product development program. We will require additional funds for operating expenses, FDA regulatory processes, manufacturing and marketing programs and to continue our product development program. We expect to use our Amended Private Equity Agreement with Southridge and/or alternative financing facilities to raise the additional funds required to continue operations. In the event that we are unable or elect not to utilize the Amended Private Equity Agreement with Southridge or any successor agreement(s) on comparable terms, we would have to raise the additional funds required by either equity or debt financing, including entering into a transaction(s) to privately place equity, either common or preferred stock, or debt securities, or combinations of both; or by placing equity into the public market through an underwritten secondary offering. If additional funds are raised by issuing equity securities, whether to Southridge or other investors, dilution to existing stockholders will result, and future investors may be granted rights superior to those of existing stockholders.

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Capital expenditures for the three months ending March 31, 2013, were $0 as compared to $0 for the three months ending March 31, 2012. We anticipate that the balance of our capital needs for the fiscal year ending June 30, 2013 will be approximately $10,000.

There were no other changes in our existing debt agreements other than extensions, and we had no outstanding bank loans as of March 31, 2013. Our fixed commitments, including salaries and fees for current employees and consultants, rent, payments under license agreements and other contractual commitments are substantial and are likely to increase as additional agreements are entered into and additional personnel are retained. We will require substantial additional funds for our product development programs, operating expenses, regulatory processes, and manufacturing and marketing programs. Our future capital requirements will depend on many factors, including the following:

1) The progress of our ongoing product development projects;
2) The time and cost involved in obtaining regulatory approvals;
3) The cost of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights;
4) Competing technological and market developments;
5) Changes and developments in our existing collaborative, licensing and other relationships and the terms of any new collaborative, licensing and other arrangements that we may establish;
6) The development of commercialization activities and arrangements; and
7) The costs associated with compliance to SEC regulations.

We do not expect to generate a positive internal cash flow for at least 12 months as substantial costs and expenses continue due principally to the international commercialization of the CTLM®, activities related to our FDA approval process, and advanced product development activities. We intend to use the proceeds from the sale of convertible debentures, convertible preferred shares, convertible promissory notes, and/or alternative financing facilities as our sources of working capital. It is unlikely that we will be able to use our Private Equity Agreement with Southridge or any successor private equity agreements due to the high costs of preparing and filing an S-1 registration statement and the limitation on how many shares can be registered to stay within the window to be deemed a secondary offering. There can be no assurance that the equity credit financing will continue to be available on acceptable terms.

We plan to continue our policy of investing excess funds, if any, in a High Performance Money Market savings account at Wells Fargo Bank, N.A.

BUSINESS LEASE AGREEMENT

On June 2, 2008, we executed a Business Lease Agreement with Ft. Lauderdale Business Plaza Associates, an unaffiliated third-party, for 9,870 square feet of commercial office and manufacturing space at 5307 NW 35th Terrace, Ft. Lauderdale, Florida. The term of the lease is five years and one month; with the first monthly rent payment due September 1, 2008; and with an option to renew for one additional period of three years. The monthly base rent for the initial year is $6,580 plus applicable sales tax. During the term and any renewal term of the lease, the base annual rent shall be increased each year. Commencing with the first day of August 2009 and each year thereafter, the base annual rent shall be cumulatively increased by 3.5% each lease year plus applicable sales tax. IDSI will also be obligated to pay as additional rent its pro-rata share of all common area maintenance expenses, which is estimated to be $3,084.37 per month for the first 12 months of the lease. The total monthly rent including Florida sales tax for the first 12 months is $10,244.23. Upon the execution of the lease, we paid the first month's rent of $10,244.23 and a security deposit of $13,160.00. In August 2008, we moved into our new headquarters facility. We believe that our new facility is adequate for our current and reasonably foreseeable future needs and provides us

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with a monthly cost savings of $23,196 per month. We intend to assemble the CTLM® at our facility from hardware components that will be made by vendors to our specifications. In the event that demand for the CTLM® substantially increases, we will be utilizing FDA approved contract manufacturing companies to build our CTLM® systems.

On July 21, 2011, we entered into an agreement with Ft. Lauderdale Business Plaza Associates, an unaffiliated third-party, for an additional 4,800 square feet of commercial office space at 5301 NW 35th Terrace, Ft. Lauderdale, Florida. The term of the lease will run concurrent with our original lease commencing on September 1, 2011 and terminating on September 30, 2013. The monthly base rent for the initial year is $4,500 plus applicable sales tax and increase by 3.5% each year to the lease expiration. We terminated this lease agreement and obtained a release dated August 2, 2012 from Ft. Lauderdale Business Plaza Associates.

ISSUANCE OF STOCK FOR SERVICES/DILUTIVE IMPACT TO SHAREHOLDERS

We, from time to time, have issued and may continue to issue stock for services rendered by consultants, all of whom have been unaffiliated.

Since we have generated no significant revenues to date, our ability to obtain and retain consultants may be dependent on our ability to issue stock for services. Since July 1, 1996, we have issued an aggregate of 2,306,500 shares of common stock according to registration statements on Form S-8. The aggregate fair market value of the shares registered on Form S-8 when issued was $2,437,151. On July 15, 2008, we entered into a Financial Services Consulting Agreement (the "Agreement") with R.H. Barsom Company, Inc. of New York, NY, an unaffiliated third-party, to provide us with investor relations services and guidance and assistance in available alternatives to maximize shareholder value. The term of the Agreement was six months, with payment for services being made with shares of IDSI's common stock with a restricted legend to Richard E. Barsom. The total payment was 5,000,000 restricted shares, with the first payment of 2,500,000 restricted shares paid on July 16, 2008, and the second payment of 2,500,000 restricted shares paid on October 3, 2008. The aggregate fair market value of the 5,000,000 restricted shares when issued was $55,000. The Company agreed to register as soon as practicable the aggregate of 5,000,000 shares in an S-1 Registration Statement. In April 2010, we issued 250,000 restricted shares to Frederick P. Lutz to satisfy the balance of $2,250 previously owed to him for investor relation services and for additional investor relation services. The aggregate fair market value of the 250,000 restricted shares when issued was $13,500.

On May 8 2013, we issued Michael Addley, our COO, 120,645,200 shares of restricted common stock for partial payment of accrued wages. The aggregate fair value of the issuance was $36,194.

The issuance of large amounts of our common stock, sometimes at prices well below market price, for services rendered or to be rendered and the subsequent sale of these shares may further depress the price of our common stock and dilute the holdings of our shareholders. In addition, because of the possible dilution to existing shareholders, the issuance of substantial additional shares may cause a change-in-control.

ISSUANCE OF STOCK IN CONNECTION WITH SHORT-TERM LOANS

In November 2009, we borrowed a total of $237,500 from four private investors pursuant to short-term promissory notes. These notes were due and payable in the amount of principal plus 20% premium, so that the total amount due was $285,000. In addition, we issued to the investors 70 shares of restricted common stock for each $1 lent so that a total of 16,625,000 shares of stock were issued to the investors. The aggregate fair market value of the 16,625,000 shares of stock when issued was $465,500. $30,000 principal on one of the notes was sold to OTC Global Partners in September 2012. $10,000 premium on one of the notes was sold to WHC Capital LLC on March 22, 2013. As of March 31, 2013, we have repaid an aggregate principal and premium in the amount of $148,500 on these short-term notes and owe a balance of $196,300 of which $70,000 is the principal remaining. The original due date of December 21, 2009, was first extended to February 28, 2010, with a second extension to June 15, 2010, a third extension to September 30, 2010 and a fourth extension to October 31, 2010. Further extensions of the $100,000

note were made through June 30, 2012 for 3% additional premium per month. However, as of June 30, 2012, we are accruing this 3% additional premium per month but have not yet received an extension of maturity date and are in technical default of the note. We are negotiating with the lender to extend the maturity date. In connection with all of the extensions, a total of $89,800 of additional premium was accrued as of March 31, 2013.

In December 2009, we borrowed a total of $400,000 from a private investor pursuant to three short-term promissory notes. These notes were payable from March 10 through March 15, 2010 in the amount of principal plus 15% premium, so that the total amount due was $460,000. In addition, we issued to the investor 48,000 shares of restricted common stock as collateral. These shares are to be returned and cancelled upon payment of the notes. The original due date of March 15, 2010 was first extended to June 15, 2010, with a second extension to September 30, 2010 and a third extension to October 31, 2010. Further extensions of the notes were made through June 30, 2012 for 3% additional premium per month on each note. We have not yet received an extension of maturity date and are in technical default of the note. We are negotiating with the lender to extend the maturity date. In connection with these extensions a total of $284,420 of additional premium was accrued for the December 2009 notes as the date of this report. In April 2011, Southridge purchased a total of $200,000 in principal value of promissory notes from the private investor. All conversions before December 10, 2012, were adjusted to reflect a 1 for 500 reverse split effective that date. As of March 31, 2013, Southridge has converted $180,515 principal and $55,600 premium into 2,257,052 shares of which 41,493 shares of our common stock that was previously issued as collateral.

On December 12, 2012, the private investor sold $180,769 of a promissory note originally dated December 15, 2009 to ASC Recap. The terms of the original note remain the same except that the holder may elect at any time to convert any part or all of the $180,769 into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date. We reserved 18,000,000 shares of our common stock in connection with this transaction.

On January 3, 2013, Magna Group, LLC ("Magna") purchased $100,000 principal of a Promissory Note dated December 10, 2009 from a private investor. A new Convertible Promissory Note was issued to Magna on January 3, 2013 with a maturity date of September 3, 2013. Interest will accrue at 12% per annum. Any amount on principal or interest that remains unpaid when due shall bear an interest rate of 22% from the due date until paid. Magna may elect at any time to convert any part or all of the $100,000 plus interest into shares of our common stock at an Initial Conversion Price equal to 45% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice. We reserved 50,000,000 shares of our common stock in connection with this transaction.

On January 18, 2013, Redwood Management LLC ("Redwood") purchased $100,000 principal of a $100,000 Promissory Note originally dated December 14, 2009 from a private investor. Redwood may elect at any time to convert any part or all of the $100,000 into shares of our common stock at an Initial Conversion Price equal to 45% of the lowest closing bid price during the 15 trading days immediately prior to the date of the conversion notice. We reserved 100,000,000 shares of our common stock in connection with this transaction.

On January 8, 2010, we borrowed a total of $600,000 from a private investor pursuant to two short-term promissory notes. These notes were payable April 6, 2010 in the amount of principal plus 15% premium, so that the total amount due was $690,000. In addition, we issued to the investor 62,727 shares of restricted common stock as collateral. These shares are to be returned and cancelled upon payment of the notes. The original due date of April 6, 2010 was first extended to June 15, 2010, with a second extension to September 30, 2010 and a third extension to October 31, 2010. Further extensions of the notes were made through July 31, 2011 for 3% additional premium per month on each note. In January 2011, Southridge purchased a total of $600,000 in principal value of promissory notes from the private investor. As of the date of this report, Southridge has fully converted $600,000 principal and $340,099 premium into 768,912 shares of our common stock of which 62,112 shares were collateral shares and

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706,800 new shares were issued pursuant to Rule 144. Although we were in technical default of these two notes, the holder, Southridge elected to convert these notes into common shares. In connection with these prior extensions through June 30, 2012 and the accrual of the additional premiums through May 31, 2012, a total of $255,647 of additional premium was accrued for the January 2010 notes as of June 30, 2012.

On February 25, 2010, we borrowed $350,000 from a private investor pursuant to a short-term promissory note. We issued to the investor 35 shares of Series L Convertible Preferred Stock as collateral. This note had a maturity date of April 30, 2010; however, the investor gave us notice of conversion to the collateral shares on March 31, 2010. The Note was cancelled upon this conversion. The 35 shares of Series L Convertible Preferred Stock accrue dividends at an annual rate of 9% and are convertible into an aggregate of 16,587,690 shares of common stock (473,934 shares of common stock for each share of preferred stock). Pursuant to the Certificate of Designation, Rights and Preferences for the Series L Convertible Preferred Stock, we are obligated to reduce the conversion price and reserve additional shares for conversion if we sold or issued common shares below the price of $.0211 per share (the market price on the date of issuance of the Preferred Stock). In October 2010, we obtained a waiver from the private investor holding the 35 shares of Series L Convertible Preferred Stock in which the investor agreed to convert no more than the 16,587,690 common shares currently reserved as we do not have sufficient authorized common shares to reserve for further conversions pursuant to the Certificate of Designation, Rights and Preferences. The investor agreed to a conversion floor price of $.015, which required us to reserve an additional 13,491 common shares.

On January 6, 2011, the investor converted 15 shares of the Series L Convertible Preferred Stock into 20,000 shares of common stock. As of the date of this report, the investor holds 20 shares of the Series L Convertible Preferred Stock.

On December 13, 2010, we borrowed a total of $60,000 from a private investor pursuant to a short-term promissory note. The note is payable on or before January 31, 2011. As consideration for this loan, we were obligated to pay back his principal, $26,400 in premium and issue 6,000 restricted shares of common stock upon the approval by our shareholders of an increase in authorized common stock at our annual meeting to be held on July 12, 2011. On September 9, 2011, we issued the 6,000 common shares pursuant to Rule 144. We received an extension of maturity date to December 31, 2012 for this note. On September 5, 2012, the private investor sold $40,000 principal of the note to SGI Group. On December 17, 2012, the private investor sold the balance of his note totaling $46,400 ($20,000 principal and $26,400 premium) to WHC Capital LLC.

In November and December 2010, we received a total of $145,000 from Southridge pursuant to three short-term promissory notes. All three notes provide for a redemption premium of 15% of the principal amount on or before March 31, 2011. Interest will accrue at 8% per annum until maturity. Southridge may elect at any time to convert any part or all of the $145,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.01 or (b) 90% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

In January 2011, we received a total of $157,000 from Southridge pursuant to three short-term promissory notes. All three notes provide for a redemption premium of 15% of the principal amount on or before May 31, 2011. Interest will accrue at 8% per annum until maturity. Southridge may elect at any time to convert any part or all of the $157,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.01 or (b) 90% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

In February 2011, we received a total of $115,000 from Southridge pursuant to two short-term promissory notes. Both notes provide for a redemption premium of 15% of the principal amount on or before May 31, 2011. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $115,000 Principal Amount of the Notes plus accrued interest into shares of

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our common stock at a conversion price equal to the lesser of (a) $0.01 or (b) 90% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

In March 2011, we received $60,000 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before May 31, 2011. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $60,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.01 or (b) 90% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

In April 2011, we received $165,000 from Southridge pursuant to two short-term promissory notes. The notes provide for a redemption premium of 15% of the principal amount on or before July 31, 2011. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $165,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.01 or (b) 90% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

In May 2011, we received $80,000 from Southridge pursuant to two short-term promissory notes. The notes provide for a redemption premium of 15% of the principal amount on or before July 31, 2011. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $80,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.01 or (b) 90% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

In July 2011, we received $150,000 from Southridge pursuant to a short-term promissory note. The note provided for a redemption premium of 15% of the principal amount on or before December 31, 2011. We received an extension of maturity date to February 29, 2012 for these notes. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $150,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.01 or (b) 70% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

In August 2011, we received $82,500 from Southridge pursuant to two short-term promissory notes of which the principal on these notes was $100,000 and $7,500, respectively. The $100,000 note provided for a $25,000 original issue discount and both notes provided for a redemption premium of 15% of the principal amount on or before December 31, 2011. We received an extension of maturity date to February 23, 2013 for these notes. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $107,500 principal amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.01 or (b) 70% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. The $100,000 and the $7,500 note have been paid in full through the conversion to common stock pursuant to Rule 144.

In August 2011, we received $50,000 from OTC Global Partners, LLC pursuant to a short-term promissory note. The note provided for a redemption premium of 15% of the principal amount on or before March 1, 2012. Interest will accrue at 8% per annum until maturity above and beyond the premium. OTC Global Partners, LLC may elect at any time to convert any part or all of the $50,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.014 or (b) 65% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

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In September 2011, we received $133,000 from Southridge pursuant to two short-term promissory notes of which the principal on these notes was $100,000 and $100,000, respectively. One of the $100,000 notes provided for a $33,000 original issue discount and the other $100,000 note provided a $34,000 original issue discount. The notes provided for a redemption premium of 15% of the principal amount on or before December 31, 2011. We received an extension of maturity date to December 31, 2012 for these notes. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $200,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.0075 or (b) 70% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. The $100,000 note has been paid in full through the conversion to common stock pursuant to Rule 144.

In October 2011, we received $67,000 from Southridge pursuant to a short-term promissory note of which the principal on the note was $100,000. The note provides for a $33,000 original issue discount. The note provided for a redemption premium of 15% of the principal amount on or before January 12, 2012. We received an extension of maturity date to December 31, 2012 for this note. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $100,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.0075 or (b) 70% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice.

In October 2011, we received $67,000 from Southridge pursuant to a short-term promissory note of which the principal on the note was $100,000. The note provides for a $33,000 original issue discount. The note provided for a redemption premium of 15% of the principal amount on or before January 26, 2012. We received an extension of maturity date to December 31, 2012 for this note. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $100,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.005 or (b) 70% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In October 2011, we received $78,500 from Asher Enterprises pursuant to a short-term promissory note due on or before July 26, 2012. Interest will accrue at 8% per annum until maturity above and beyond the premium. Asher Enterprises may elect at any time after 180 days to convert any part or all of the $78,500 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 58% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

In November 2011, we received $20,000 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before December 31, 2012. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $20,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 62% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

On November 21, 2011, Southridge sold their May 12, 2011 $60,000 short-term promissory note to Panache Capital, LLC ("Panache"). The terms of the original note remain the same except that the maturity date is now November 21, 2012 and interest will accrue at 10% per annum until maturity above and beyond the premium.

In November 2011, we received $40,000 from Panache pursuant to a short-term promissory note. The note provides a maturity date of November 21, 2012. Interest will accrue at 10% per annum until maturity. Panache may elect at any time to convert any part or all of the $40,000 Principal Amount of the Note plus accrued interest into

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shares of our common stock at a conversion price equal to 62% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In November 2011, we received $53,000 from Asher Enterprises pursuant to a short-term promissory note due on or before September 5, 2012. Interest will accrue at 8% per annum until maturity above and beyond the premium. Asher Enterprises may elect at any time after 180 days to convert any part or all of the $53,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 58% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

In December 2011, we received $17,000 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before December 18, 2012. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $17,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 62% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In December 2011, we received $12,000 from an unaffiliated third party investor pursuant to a short-term promissory note. The note provided for a redemption premium of 15% of the principal amount on or before March 8, 2012. Interest will accrue at 10% per annum until maturity above and beyond the premium. On January 6, 2012, we amended a promissory note in the principal amount of $12,000 dated December 9, 2011 held by an unaffiliated third-party investor. The note provided for a redemption premium of 15% of the principal amount on or before March 8, 2012. Interest will accrue at 10% per annum until maturity above and beyond the premium. The amendment provided for the issuance of three (3) restricted shares of Series P Preferred Stock having a stated value of $5,000 per share. These shares, having a total value of $15,000, will be used as collateral for the note held by the investor. We received an extension of maturity to June 4, 2012 for this note. Thereafter, a late fee premium of 1% per month will be due if unpaid. We have not yet received an extension of maturity date and are in technical default of the note. We are negotiating with the lender to extend the maturity date.

In December 2011, we borrowed a total of $21,604 from a private investor pursuant to two short-term promissory notes. The notes provided for a 2% premium per month. One of the notes was payable on or before December 16, 2011 and the other on or before January 6, 2012. We received an extension of maturity date to August 31, 2012 for these notes for 3% additional premium per month on each note.

In January 2012, we received a total of $175,200 from an unaffiliated third party investor pursuant to five short-term promissory notes with a maturity date ranging from March 5, 2012 to March 20, 2012. The notes provided for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 10% per annum until maturity above and beyond the premium. We issued a total of 38 Series P Preferred Stock to the investor as collateral with a total stated value of $190,000. We received an extension of maturity to June 4, 2012 for these notes. Thereafter, a late fee premium of 1% per month will be due if unpaid. We have not yet received an extension of maturity date and are in technical default of the note. We are negotiating with the lender to extend the maturity date. On March 20, 2013, the private investor sold $57,600 Principal of his $57,600 note to Tangiers Investment Group LLC. The full sale of the note was for $75,969 ($57,600 Principal, $8,640 Premium, $4,032 Late Fee Premium and $5,697 Interest). On March 20, 2013, we entered into a new Promissory Note with Tangiers Capital for $75,969 in Principal with a maturity date of March 19, 2014. Interest will accrue at 15% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $75,969 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

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In February 2012, we received a total of $42,000 from an unaffiliated third party investor pursuant to two short-term promissory notes with a maturity date ranging from April 13, 2012 to April 30, 2012. The notes provided for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 10% per annum until maturity above and beyond the premium. We issued a total of 9 Series P Preferred Stock to the investor as collateral with a total stated value of $45,000. We received an extension of maturity to June 4, 2012 for these notes. Thereafter, a late fee premium of 1% per month will be due if unpaid. We have not yet received an extension of maturity date and are in technical default of the note. We are negotiating with the lender to extend the maturity date.

On February 23, 2012, Southridge sold their $100,000 short-term promissory note to Panache Capital, LLC ("Panache") of which a balance of $70,000 principal was remaining after Southridge converted $30,000 principal in a debt to equity conversion on February 17, 2012. The terms of the original note remain the same except that the maturity date is now November 21, 2012 and interest will accrue at 10% per annum until maturity above and beyond the premium. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In February 2012, we received $25,000 from Panache pursuant to a short-term promissory note. The note provides a maturity date of February 28, 2013. Interest will accrue at 10% per annum until maturity. Panache may elect at any time to convert any part or all of the $25,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 55% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In March 2012, we received $30,000 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before March 18, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $30,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 62% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In April 2012, we received $11,000 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before December 31, 2012. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $11,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In April 2012, we received $2,500 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before April 25, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $2,500 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In May 2012, we received a total of $25,000 from an unaffiliated third party investor pursuant to a short-term promissory note with a maturity date of August 2, 2012. The note provides for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 10% per annum until maturity above and beyond the premium. We issued a total of 5 Series P Preferred Stock to the investor as collateral with a total stated value of $25,000. We have not yet received an extension of maturity date and are in technical default of the note. We are negotiating with the lender to extend the maturity date.

In May 2012, we received $8,000 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before May 14, 2013. Interest will accrue at 8% per

annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $8,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In May 2012, we received $13,000 from Linda Grable, our CEO and Chairman of the Board, pursuant to a short-term promissory note. Ms. Grable is deemed an affiliated party. The note provides for a redemption premium of 15% of the principal amount on or before May 21, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. Ms. Grable may elect at any time to convert any part or all of the $13,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In May 2012, we received $32,000 from a private investor pursuant to two short-term promissory notes with a maturity date ranging from May 17, 2013 to May 20, 2013. The notes provides for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $32,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice.

In June 2012, we received $6,672 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before June 17, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $6,672 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In June 2012, we received $14,000 from a private investor pursuant to two short-term promissory notes with a maturity date ranging from June 6, 2013 to June 20, 2013. The notes provides for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $14,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice.

In July 2012, we received $20,100 from a private investor pursuant to four short-term promissory notes with a maturity date ranging from July 9, 2013 to July 24, 2013. The notes provide for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $20,100 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice.

In August 2012, we received $25,000 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before December 31, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $25,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice. We reserved 50,000,000 shares of our common stock in connection with this loan. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In August 2012, we received $95,000 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before December 31, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert

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any part or all of the $95,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date. We reserved 400,000,000 shares of our common stock in connection with this loan.

On August 20, 2012, Southridge sold $70,000 of their original $100,000 short-term promissory note dated October 12, 2011 to Levin Consulting Group. The terms of the original note remain the same except that the holder may elect at any time to convert any part or all of the $70,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date.

In August 2012, we received $35,000 from Levin Consulting Group pursuant to a short-term promissory note with a maturity date of August 20, 2013. The note provides for a redemption premium of 15% of the principal amount on or before November 18, 2012; 20% on or before December 18, 2012; 25% on or before January 17, 2013; and 30% on or before February 16, 2013. Interest will accrue at 10% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $35,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date.

On August 20, 2012, Southridge sold $30,000 of their original $100,000 short-term promissory note dated October 12, 2011 to SGI Group LLC ("SGI"). The terms of the original note remain the same except that the holder may elect at any time to convert any part or all of the $30,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date.

In August 2012, we received $15,000 from SGI pursuant to a short-term promissory note with a maturity date of August 20, 2013. The note provides for a redemption premium of 15% of the principal amount on or before November 18, 2012; 20% on or before December 18, 2012; 25% on or before January 17, 2013; and 30% on or before February 16, 2013. Interest will accrue at 10% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $15,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date.

In September 2012, we received $29,000 from Southridge pursuant to a short-term promissory note of which the principal on the note was $30,000. The note provides for a $1,000 original issue discount. The note provides for a redemption premium of 15% of the principal amount on or before December 31, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $30,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date. We reserved 150,000,000 shares of our common stock in connection with this loan.

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In September 2012, we received $25,000 from Panache pursuant to a short-term promissory note of which the principal on the note was $30,000. The note provides for a $5,000 original issue discount. The note provides for a redemption premium of 15% of the principal amount on or before December 31, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. Panache may elect at any time to convert any part or all of the $30,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date. We reserved 200,000,000 shares of our common stock in connection with this loan.

In September 2012, we received $30,000 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 20% on or before December 17, 2012; 25% on or before March 17, 2013; and 30% on or before June 15, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $30,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date. We reserved 700,000,000 shares of our common stock in connection with this loan.

On September 26, 2012, a private investor sold $30,000 of its original $100,000 short-term promissory note dated November 23, 2009 to OTC Global Partners. The terms of the original note remain the same except that the new note provides for a new redemption premium of 15% of the principal amount on or before September 25, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. OTC Global Partners may elect at any time to convert any part or all of the $30,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date.

In October 2012, we received $20,000 from Panache pursuant to a short-term promissory note. The note provides a maturity date of September 28, 2013. Interest will accrue at 10% per annum until maturity. Any amount on principal or interest that remains unpaid when due, shall bear an interest rate of 22% from the due date until paid. Panache may elect at any time to convert any part or all of the $20,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the initial closing bid price, then the purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date.

In October 2012, we received $38,500 from FLUX Carbon Starter pursuant to a short-term promissory note. The note provides a maturity date of October 3, 2013. We received net proceeds of $33,250 after deductions of $3,500 for legal fees and $1,750 for a finder's fee. Interest will accrue at 10% per annum until maturity. FLUX Carbon Starter may elect at any time to convert any part or all of the $38,500 principal amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the initial closing bid price, then the purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date.

In October 2012, we received $27,000 from Southridge pursuant to a short-term promissory note of which the principal on the note was $40,000 and the maturity date of the note is March 31, 2013. The note provides for a $13,000 original issue discount. The note provides for a redemption premium of 20% on or before January 7, 2013; 25% on or before April 7, 2013; and 30% on or before July 15, 2013. Interest will accrue at 8% per annum until

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maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $40,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the initial closing bid price, then the purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date. We reserved 300,000,000 shares of our common stock in connection with this loan.

In October 2012, we received $1,000 from Southridge pursuant to a short-term promissory note. The note provides a maturity date of April 30, 2013. The note provides for a redemption premium of 20% on or before January 22, 2013; 25% on or before April 24, 2013; and 30% after April 24, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $40,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the initial closing bid price, then the purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date. We reserved 300,000,000 shares of our common stock in connection with this loan.

In November 2012, we received $6,250 from SGI Group pursuant to a short-term promissory note of which the principal on the note was $12,500 and the maturity date of the note is May 31, 2013. The note provides for a $6,250 original issue discount. The note provides for a redemption premium of 20% of the principal amount on or before February 10, 2013; 25% on or before May 11, 2013; and 30% after May 11, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $12,500 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the initial closing bid price, then the purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date. We reserved 125,000,000 shares of our common stock in connection with this loan.

In November 2012, we received $6,250 from Star City Capital pursuant to a short-term promissory note of which the principal on the note was $12,500 and the maturity date of the note is May 31, 2013. The note provides for a $6,250 original issue discount. The note provides for a redemption premium of 20% of the principal amount on or before February 10, 2013; 25% on or before May 11, 2013; and 30% after May 11, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $12,500 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the initial closing bid price, then the purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date. We reserved 125,000,000 shares of our common stock in connection with this loan.

In November 2012, we received $20,000 from Southridge pursuant to a short-term promissory note of which the principal on the note was $40,000 and the maturity date of the note is May 31, 2013. The note provides for a $20,000 original issue discount. The note provides for a redemption premium of 20% on or before March 27, 2013; 25% on or before June 25, 2013; and 30% after June 25, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $40,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the initial closing bid price, then the purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date. We reserved 400,000,000 shares of our common stock in connection with this loan.

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In December 2012, we received $3,000 from a private investor pursuant to two short-term promissory notes with a maturity date ranging from December 5, 2013 to December 9, 2013. The notes provide for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $3,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In December 2012, we received $20,000 from a private investor pursuant to a short-term promissory note with a maturity date of December 19, 2013. The notes provide for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $20,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In December 2012, we received $12,000 from an unaffiliated third party investor pursuant to a short-term promissory note with a maturity date of June 13, 2013. The note provides for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 10% per annum until maturity above and beyond the premium. We issued a total of 3 Series P Preferred Stock to the investor as collateral with a total stated value of $15,000.

In December 2012, we received $15,000 from WHC Capital, LLC pursuant to a short-term promissory note with a maturity date of October 6, 2013. Interest will accrue at 12% per annum until maturity above and beyond the premium. Any amount on principal or interest that remains unpaid when due, shall bear an interest rate of 22% from the due date until paid. The holder may elect at any time to convert any part or all of the $15,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In January 2013, we received $31,500 from Hanover Holdings I, LLC ("Hanover") pursuant to a short-term promissory note. The note provides a maturity date of September 3, 2013. Interest will accrue at 12% per annum. Any amount on principal or interest that remains unpaid when due, shall bear an interest rate of 22% from the due date until paid. Hanover may elect at any time to convert any part or all of the $31,500 plus interest into shares of our common stock at an Initial Conversion Price equal to 45% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice. We reserved 20,000,000 shares of our common stock in connection with this transaction.

On January 3, 2013, Magna Group, LLC ("Magna") purchased $100,000 principal of a Promissory Note dated December 10, 2009 from a private investor. A new Convertible Promissory Note was issued to Magna on January 3, 2013 with a maturity date of September 3, 2013. Interest will accrue at 12% per annum. Any amount on principal or interest that remains unpaid when due, shall bear an interest rate of 22% from the due date until paid. Magna may elect at any time to convert any part or all of the $100,000 plus interest into shares of our common stock at an Initial Conversion Price equal to 45% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice. We reserved 50,000,000 shares of our common stock in connection with this transaction.

In January 2013, we received $5,850 from a private investor pursuant to two short-term promissory notes with a maturity date ranging from January 3, 2014 to January 8, 2014. The notes provide for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $5,850 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In January 2013, we received $30,000 from Black Arch Opportunity Fund LP ("Black Arch") pursuant to a short-term promissory note. The note provides a maturity date of November 9, 2013. Interest will accrue at 12% per annum. Any amount on principal or interest that remains unpaid when due, shall bear an interest rate of 22% from the due date until paid. Black Arch may elect at any time to convert any part or all of the $30,000 plus interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice.

In January 2013, we received $25,000 from Redwood Management LLC ("Redwood") pursuant to a $125,000 short-term promissory note dated January 18, 2013. The terms of the note provide that the Redwood will pay $25,000 every 30 days from execution of the note until the entire $125,000 is paid in full. The note provides a maturity date of January 18, 2014. Interest will accrue at 12% per annum on the aggregate unconverted outstanding principal amount. Redwood may elect at any time to convert any part or all of the outstanding balance plus interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the fifteen trading days immediately prior to the date of the conversion notice. We reserved 100,000,000 shares of our common stock in connection with this transaction.

In January 2013, Redwood agreed to purchase five promissory notes held by a private investor totaling $365,688 of which $213,600 in principal and $123,752 in premium; $17,040 is cash redemption premium and $11,296 is interest. Redwood may elect at any time to convert any part or all of the outstanding balance plus interest into shares of our common stock at an Initial Conversion Price equal to 45% of the lowest closing bid price during the fifteen trading days immediately prior to the date of the conversion notice. We reserved 60,000,000 shares of our common stock in connection with this transaction.

In January 2013, we received $19,500 from Hanover Holdings I, LLC ("Hanover") pursuant to a short-term promissory note. The note provides a maturity date of January 23, 2014. Interest will accrue at 12% per annum. Any amount on principal or interest that remains unpaid when due, shall bear an interest rate of 22% from the due date until paid. Hanover may elect at any time to convert any part or all of the $19,500 plus interest into shares of our common stock at an Initial Conversion Price equal to 45% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice. We reserved 12,500,000 shares of our common stock in connection with this transaction.

In January 2013, we received $15,000 from WHC Capital, LLC pursuant to a short-term promissory note with a maturity date of January 25, 2014. Interest will accrue at 12% per annum until maturity above and beyond the premium. Any amount on principal or interest that remains unpaid when due, shall bear an interest rate of 22% from the due date until paid. The holder may elect at any time to convert any part or all of the $15,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In February 2013, we received $7,000 from a private investor pursuant to a short-term promissory note with a maturity date of February 7, 2014. The note provides for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $7,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In February 2013, we received $25,000 from Redwood Management LLC ("Redwood") pursuant to a $125,000 short-term promissory note dated January 18, 2013. The terms of the note provide that the Redwood will pay $25,000 every 30 days from execution of the note until the entire $125,000 is paid in full. The note provides a maturity date of January 18, 2014. Interest will accrue at 12% per annum on the aggregate unconverted outstanding principal amount. Redwood may elect at any time to convert any part or all of the outstanding balance plus interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the fifteen trading days immediately prior to the date of the conversion notice.

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In February 2013, we received $15,000 from WHC Capital, LLC pursuant to a short-term promissory note with a maturity date of January 25, 2014. Interest will accrue at 12% per annum until maturity above and beyond the premium. Any amount on principal or interest that remains unpaid when due, shall bear an interest rate of 22% from the due date until paid. The holder may elect at any time to convert any part or all of the $15,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In March 2013, we received $78,500 from Asher Enterprises pursuant to a short-term promissory note due on or before December 5, 2013. We received net proceeds of $75,000 after deductions of $2,500 for legal fees. Interest will accrue at 8% per annum until maturity above and beyond the premium. Asher Enterprises may elect at any time after 180 days to convert any part or all of the $78,500 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 58% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. We reserved 209,000,000 shares of our common stock in connection with this loan.

In March 2013, we received $30,000 from Tangiers Investment Group, LLC ("Tangiers") pursuant to a short-term promissory note due on or before December 5, 2013. We received net proceeds of $25,000 after deductions of $2,500 for legal fees and $2,500 for a consulting fee. Interest will accrue at 15% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $30,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In March 2013, we received $20,000 from JMJ Financial pursuant to a short-term promissory note with a maturity date of March 26, 2014. During the first 90 days of the loan period, interest will be 0%. Interest will accrue at 12% per annum after 90 days until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $20,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to the lower of $0.0016 or 60% of the average of the lowest closing bid price during the 25 trading days immediately prior to the date of the conversion notice. We reserved 500,000,000 shares of our common stock in connection with this loan.

In March 2013, we received $7,500 from Redwood Management LLC ("Redwood") pursuant to a $125,000 short-term promissory note dated January 18, 2013. The terms of the note provide that the Redwood will pay $25,000 every 30 days from execution of the note until the entire $125,000 is paid in full. The note provides a maturity date of January 18, 2014. Interest will accrue at 12% per annum on the aggregate unconverted outstanding principal amount. Redwood may elect at any time to convert any part or all of the outstanding balance plus interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the fifteen trading days immediately prior to the date of the conversion notice.

In April 2013, we received $8,000 from Linda Grable, our CEO and Chairman of the Board, pursuant to a short-term promissory note. Ms. Grable is deemed an affiliated party. The note provides for a redemption premium of 15% of the principal amount on or before March 31, 2014. Interest will accrue at 8% per annum until maturity above and beyond the premium. Ms. Grable may elect at any time to convert any part or all of the $8,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice.

In April 2013, we received $10,000 from a private investor pursuant to a short-term promissory note with a maturity date of April 2, 2014. The note provides for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $10,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

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In April 2013, we received $32,500 from Asher Enterprises pursuant to a short-term promissory note due on or before January 14, 2014. We received net proceeds of $30,000 after deductions of $2,500 for legal fees. Interest will accrue at 8% per annum until maturity above and beyond the premium. Asher Enterprises may elect at any time after 180 days to convert any part or all of the $32,500 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 58% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. We reserved 2,662,000,000 shares of our common stock in connection with this loan.

On April 25, 2013, the private investor sold $16,000 Principal of his $16,000 note to Tangiers Investment Group LLC. The full sale of the note was for $21,916 ($16,000 Principal, $4,000 Premium and $1,916 Interest). On April 25, 2013, we entered into a new Promissory Note with Tangiers Capital for $21,916 in Principal with a maturity date of April 24, 2014. Interest will accrue at 15% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $21,916 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

On April 25, 2013, the private investor sold $11,648 Principal of his $22,000 note to Tangiers Investment Group LLC. The full sale of the note was for $18,084 ($11,648 Principal, $3,947 Premium and $2,489 Interest). On April 25, 2013, we entered into a new Promissory Note with Tangiers Capital for $18,084 in Principal with a maturity date of April 24, 2014. Interest will accrue at 15% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $18,084 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In April 2013, we received $20,000 from Tangiers Investment Group, LLC ("Tangiers") pursuant to a short-term promissory note due on or before April 24, 2014. We received net proceeds of $15,000 after deductions of $2,500 for legal fees and $2,500 for a consulting fee. Interest will accrue at 15% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $20,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In April 2013, we received $5,000 from Redwood Management LLC ("Redwood") pursuant to a $125,000 short-term promissory note dated January 18, 2013. The terms of the note provide that the Redwood will pay $25,000 every 30 days from execution of the note until the entire $125,000 is paid in full. The note provides a maturity date of January 18, 2014. Interest will accrue at 12% per annum on the aggregate unconverted outstanding principal amount. Redwood may elect at any time to convert any part or all of the outstanding balance plus interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the fifteen trading days immediately prior to the date of the conversion notice.

OID (Original Issue Discount) is included in debt discount and amortized ratably to interest expense over the term of the respective notes to which they relate.

Debt to Equity Conversions:

On May 11, 2011, Southridge executed a debt to equity conversion of a $80,000 short-term promissory note dated November 11, 2010 plus accrued interest of $3,174. We issued Southridge 22,180 common shares pursuant to Rule 144 based on an agreed exchange price of $3.75 per share. We canceled the $12,000 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On July 13, 2011, Southridge executed a debt to equity conversion of a $14,000 short-term promissory note dated December 16, 2010 plus accrued interest of $641. We issued Southridge 2,928 common shares pursuant to Rule 144 based on an agreed exchange price of $5 per share. We canceled the $2,100 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

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On July 13, 2011, Southridge executed a debt to equity conversion of a $51,000 short-term promissory note dated December 22, 2010 plus accrued interest of $2,269. We issued Southridge 10,654 common shares pursuant to Rule 144 based on an agreed exchange price of $5per share. We canceled the $7,650 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On July 21, 2011, Southridge executed a debt to equity conversion of a $55,000 short-term promissory note dated January 13, 2011 plus accrued interest of $2,278. We issued Southridge 11,456 common shares pursuant to Rule 144 based on an agreed exchange price of $5 per share. We canceled the $8,250 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On July 21, 2011, Southridge executed a debt to equity conversion of a $22,000 short-term promissory note dated January 19, 2011 plus accrued interest of $882. We issued Southridge 4,576 common shares pursuant to Rule 144 based on an agreed exchange price of $5 per share. We canceled the $3,300 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On August 24, 2011, Southridge executed a debt to equity conversion of a $80,000 short-term promissory note dated January 28, 2011 plus accrued interest of $3,647. We issued Southridge 16,729 common shares pursuant to Rule 144 based on an agreed exchange price of $5 per share. We canceled the $12,000 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On August 24, 2011, Southridge executed a partial debt to equity conversion of a $80,000 short-term promissory note dated February 7, 2011 in which they converted $20,000 principal plus accrued interest of $868. We issued Southridge 4,174 common shares pursuant to Rule 144 based on an agreed exchange price of $5 per share.

On September 27, 2011, Southridge executed a final debt to equity conversion of a $80,000 short-term promissory note dated February 7, 2011 in which they converted the remaining $60,000 principal plus accrued interest of $868. We issued Southridge 16,780 common shares pursuant to Rule 144 based on an agreed conversion price of $3.75 per share. We canceled the $12,000 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On September 27, 2011, Southridge executed a debt to equity conversion of a $35,000 short-term promissory note dated February 15, 2011 plus accrued interest of $1,688. We issued Southridge 9,783 common shares pursuant to Rule 144 based on an agreed conversion price of $3.75 per share. We canceled the $5,250 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On September 27, 2011, Southridge executed a debt to equity conversion of a $60,000 short-term promissory note dated March 31, 2011 plus accrued interest of $2,315. We issued Southridge 16,617 common shares pursuant to Rule 144 based on an agreed conversion price of $3.75 per share. We canceled the $9,000 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On September 28, 2011, we amended the terms of all debt agreements with Southridge Partners II, LP and agreed to amend the conversion terms of the Notes such that the principal portion of the Notes, plus accrued interest, shall be convertible into shares of our common stock at a conversion price per share equal to the lesser of (a) $3.75 or (b) ninety percent (90%) of the average of the three (3) lowest closing bid prices during the ten (10) trading days immediately prior to the date of the conversion notice.

On October 13, 2011, Southridge executed a debt to equity conversion of a $100,000 short-term promissory note dated April 14, 2011 plus accrued interest of $3,989. We issued Southridge 41,596 common shares pursuant to Rule 144 based on an agreed conversion price of $2.50 per share. We canceled the $15,000 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

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On November 3, 2011, Southridge executed a debt to equity conversion of a $65,000 short-term promissory note dated April 26, 2011 plus accrued interest of $2,721. We issued Southridge 27,088 common shares pursuant to Rule 144 based on an agreed conversion price of $2.50 per share. We canceled the $9,750 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On November 16, 2011, Southridge executed a debt to equity conversion of a $20,000 short-term promissory note dated May 6, 2011 plus accrued interest of $850. We issued Southridge 13,452 common shares pursuant to Rule 144 based on an agreed conversion price of $1.55 per share. We canceled the $3,000 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On December 15, 2011, Panache executed a partial debt to equity conversion of a $60,000 short-term promissory note dated May 12, 2011 in which they converted $14,415 principal. We issued Panache 10,000 common shares pursuant to Rule 144 based on an agreed conversion price of $1.4415 per share.

On January 3, 2012, Panache executed a partial debt to equity conversion of a $60,000 short-term promissory note dated May 12, 2011 in which they converted $12,896 principal. We issued Panache 16,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.806 per share.

On January 10, 2012, Panache executed a partial debt to equity conversion of a $60,000 short-term promissory note dated May 12, 2011 in which they converted $12,896 principal. We issued Panache 16,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.806 per share.

On January 18, 2012, Panache executed a partial debt to equity conversion of a $60,000 short-term promissory note dated May 12, 2011 in which they converted $12,710 principal. We issued Panache 20,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.6355 per share.

On January 27, 2012, Panache executed a debt to equity conversion of a $60,000 short-term promissory note dated May 12, 2011 in which they converted the final $7,083 in principal. We issued Panache 11,424 common shares pursuant to Rule 144 based on an agreed conversion price of $0.612 per share. We still owe Panache $3,139 in accrued interest associated with this note.

On January 23, 2012, Southridge executed a partial debt to equity conversion of a $150,000 short-term promissory note dated July 27, 2011 in which they converted $85,000 principal. We issued Southridge 132,781 common shares with a restrictive legend based on an agreed conversion price of $0.65 per share. The restrictive legend was removed on February 2, 2012 pursuant to Rule 144.

On January 27, 2012, Southridge executed a partial debt to equity conversion of a $150,000 short-term promissory note dated July 27, 2011 in which they converted $30,000 principal. We issued Southridge 48,387 common shares pursuant to Rule 144 based on an agreed conversion price of $0.60 per share.

On February 7, 2012, Southridge executed a partial debt to equity conversion of a $150,000 short-term promissory note dated July 27, 2011 in which they converted $18,500 principal and $6,411 interest. We issued Southridge 48,555 common shares pursuant to Rule 144 based on an agreed conversion price of $0.515 per share.

On February 10, 2012, Southridge executed a partial debt to equity conversion of a $150,000 short-term promissory note dated July 27, 2011 in which they converted $16,500 principal and $99 interest. We issued Southridge 34,544 common shares pursuant to Rule 144 based on an agreed conversion price of $0.48 per share.

On February 17, 2012, Southridge executed a partial debt to equity conversion of a $100,000 short-term promissory note dated August 25, 2011 in which they converted $30,000 principal and $3,858 interest. We issued Southridge 68,475 common shares on February 27, 2012 pursuant to Rule 144 based on an agreed conversion price of $0.495 per share.

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On February 23, 2012, Southridge executed a debt to equity conversion of a $7,500 short-term promissory note dated August 23, 2011 in which they converted $7,500 principal and $289 interest. We issued Southridge 15,091 common shares pursuant to Rule 144 based on an agreed conversion price of $0.515 per share.

On February 28, 2012, Southridge executed a partial debt to equity conversion of a $100,000 short-term promissory note dated September 12, 2012 in which they converted $51,000 principal and $3,595 interest. We issued Southridge 121,456 restricted common shares pursuant to Rule 144 based on an agreed conversion price of $0.45 per share.

On March 5, 2012, OTC Global Partners executed a debt to equity conversion of a $50,000 short-term promissory note dated August 30, 2011 in which they converted $50,000 principal and $2,027 interest. We issued OTC Global Partners 145,530 common shares pursuant to Rule 144 based on an agreed conversion price of $0.3575 per share.

On April 13, 2012, Southridge executed a partial debt to equity conversion of a $100,000 short-term promissory note dated September 12, 2012 in which they converted $49,000 principal and $1,096 interest. We issued Southridge 247,387 restricted common shares on April 24, 2012 pursuant to Rule 144 based on an agreed conversion price of $0.205 per share.

On April 13, 2012, Southridge executed a partial debt to equity conversion of a $100,000 short-term promissory note dated September 28, 2012 in which they converted $4,000 principal and $4,340 interest. We issued Southridge 41,184 restricted common shares on April 24, 2012 pursuant to Rule 144 based on an agreed conversion price of $0.205 per share.

On May 1, 2012, Panache executed a partial debt to equity conversion of a $100,000 short-term promissory note dated August 25, 2011 in which they converted $9,765 principal. We issued Panache 42,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.2325 per share.

On May 1, 2012, Asher executed a partial debt to equity conversion of a $78,500 short-term promissory note dated October 24, 2011 in which they converted $12,000 principal. We issued Asher 52,174 common shares pursuant to Rule 144 based on an agreed conversion price of $0.23 per share.

On May 2, 2012, Asher executed a partial debt to equity conversion of a $78,500 short-term promissory note dated October 24, 2011 in which they converted $15,000 principal. We issued Asher 88,235 common shares pursuant to Rule 144 based on an agreed conversion price of $0.17 per share.

On May 10, 2012, Asher executed a partial debt to equity conversion of a $78,500 short-term promissory note dated October 24, 2011 in which they converted $13,000 principal. We issued Asher 136,842 common shares pursuant to Rule 144 based on an agreed conversion price of $0.095 per share.

On May 10, 2012, Panache executed a partial debt to equity conversion of a $100,000 short-term promissory note dated August 25, 2011 in which they converted $7,440 principal. We issued Panache 60,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.124 per share.

On May 15, 2012, Panache executed a partial debt to equity conversion of a $100,000 short-term promissory note dated August 25, 2011 in which they converted $9,330 principal. We issued Panache 100,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0933 per share.

On May 21, 2012, Asher executed a partial debt to equity conversion of a $78,500 short-term promissory note dated October 24, 2011 in which they converted $18,500 principal. We issued Asher 205,556 common shares pursuant to Rule 144 based on an agreed conversion price of $0.09 per share.

On May 22, 2012, Panache executed a partial debt to equity conversion of a $100,000 short-term promissory note dated August 25, 2011 in which they converted $9,330 principal. We issued Panache 100,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.093 per share.

On May 29, 2012, Asher executed a partial debt to equity conversion of a $78,500 short-term promissory note dated October 24, 2011 in which they converted $12,000 principal. We issued Asher 133,333 common shares pursuant to Rule 144 based on an agreed conversion price of $0.09 per share.

On May 30, 2012, Panache executed a partial debt to equity conversion of a $100,000 short-term promissory note dated August 25, 2011 in which they converted $9,330 principal. We issued Panache 100,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.093 per share.

On June 4, 2012, Asher executed a partial debt to equity conversion of a $78,500 short-term promissory note dated October 24, 2011 in which they converted $8,000 principal and $3,140 in interest. We issued Asher 171,385 common shares pursuant to Rule 144 based on an agreed conversion price of $0.065 per share.

On June 5, 2012, Panache executed a partial debt to equity conversion of a $100,000 short-term promissory note dated August 25, 2011 in which they converted $9,920 principal. We issued Panache 160,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.062 per share.

On June 8, 2012, Asher executed a partial debt to equity conversion of a $53,000 short-term promissory note dated November 29, 2011 in which they converted $12,000 principal. We issued Asher 171,385 common shares pursuant to Rule 144 based on an agreed conversion price of $0.07 per share.

On June 12, 2012, Asher executed a partial debt to equity conversion of a $53,000 short-term promissory note dated November 29, 2011 in which they converted $14,000 principal. We issued Asher 200,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.07 per share.

On June 15, 2012, Asher executed a partial debt to equity conversion of a $53,000 short-term promissory note dated November 29, 2011 in which they converted $13,000 principal. We issued Asher 136,842 common shares pursuant to Rule 144 based on an agreed conversion price of $0.095 per share.

On June 20, 2012, Asher executed a partial debt to equity conversion of a $53,000 short-term promissory note dated November 29, 2011 in which they converted $14,000 principal and $2,120 in interest. We issued Asher 189,647 common shares pursuant to Rule 144 based on an agreed conversion price of $0.085 per share.

On July 17, 2012, Ms. Grable, our CEO and Chairman of the Board, executed a full debt to equity conversion of a $13,000 short-term promissory note in which she converted $13,000 principal and $148 in interest. We issued Ms. Grable 87,654 restricted common shares pursuant to Rule 144 based on an agreed conversion price of $0.15 per share. Ms. Grable is deemed an affiliated party.

On July 17, 2012, a private investor executed a partial debt to equity conversion of five of her notes in which she converted $19,583 principal into 200,000 restricted common shares pursuant to Rule 144 based on an agreed conversion price of $0.0885 per share.

On July 25, 2012, a private investor executed a full debt to equity conversion of a $3,000 short-term promissory note in which she converted $3,000 principal into 20,000 restricted common shares pursuant to Rule 144 based on an agreed conversion price of $0.15 per share.

On July 30, 2012, a private investor executed a partial debt to equity conversion of a $10,000 short-term promissory note in which she converted $6,900 principal into 46,000 restricted common shares pursuant to Rule 144 based on an agreed conversion price of $0.15 per share.

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On August 7, 2012, a private investor sold their December 2011 short-term promissory notes totaling $21,604 in principal and $5,334 in premium to OTC Global Partners. A new short-term promissory note was issued to OTC Global Partners dated August 7, 2012 with a taking period back to December 7, 2011. OTC Global Partners may elect at an Event of Default to convert any part or all of the $21,604 Principal Amount of the Note plus accrued premium into shares of our common stock at a conversion price $0.16.

On August 7, 2012, OTC Global Partners executed a partial debt to equity conversion of the $21,604 short-term promissory note in which they converted $21,604 principal and $2,396 in premium. We issued OTC Global Partners 150,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.16 per share.

On September 5, 2012, Southridge executed a partial debt to equity conversion of a $100,000 short-term promissory note dated September 28, 2011 in which they converted $85,582 principal. We issued Southridge 760,727 common shares pursuant to Rule 144 based on an agreed conversion price of $0.115 per share.

On September 10, 2012, Levin Consulting Group executed a partial debt to equity conversion of the $70,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $20,000 principal. We issued Levin Consulting Group 160,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.125 per share. On September 21, 2012 we issued Levin Consulting Group an additional 240,000 shares because the closing bid price on the clearing date fell below the Initial closing bid price.

On September 10, 2012, Panache executed a partial debt to equity conversion of a $100,000 short-term promissory note dated August 25, 2011 in which they converted $14,885 principal. We issued Panache 160,054 common shares pursuant to Rule 144 based on an agreed conversion price of $0.093 per share.

On September 11, 2012, Southridge executed a final debt to equity conversion of a $100,000 short-term promissory note dated September 28, 2011 in which they converted $10,418 principal and $3,004 in interest. We issued Southridge 178,958 common shares pursuant to Rule 144 based on an agreed conversion price of $0.075 per share.

On September 11, 2012, Southridge executed a partial debt to equity conversion of a $100,000 short-term promissory note dated October 26, 2011 in which they converted $32,500 principal and $7,036 in interest. We issued Southridge 527,142 common shares pursuant to Rule 144 based on an agreed conversion price of $0.075 per share.

On September 12, 2012, Southridge executed a partial debt to equity conversion of a $100,000 short-term promissory note dated October 26, 2011 in which they converted $4,150 principal. We issued Southridge 55,333 common shares pursuant to Rule 144 based on an agreed conversion price of $0.075 per share.

On September 12, 2012, Panache executed a partial debt to equity conversion of a $40,000 short-term promissory note dated November 21, 2011 in which they converted $23,250 principal. We issued Panache 250,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.093 per share.

On September 19, 2012, Panache executed a final debt to equity conversion of a $40,000 short-term promissory note dated November 21, 2011 in which they converted $16,750 principal and $3,244 in interest. We issued Panache 257,983 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0775 per share.

On September 20, 2012, Southridge executed a partial debt to equity conversion of a $100,000 short-term promissory note dated October 26, 2011 in which they converted $47,300 principal and $153 in interest. We issued Southridge 759,255 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0625 per share.

On September 27, 2012, OTC Global Partners executed a partial debt to equity conversion of the $30,000 short-term promissory note in which they converted $18,000 in principal. We issued OTC Global Partners 360,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.05 per share.

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On September 28, 2012, Panache executed a partial debt to equity conversion of a $25,000 short-term promissory note dated February 28, 2012 in which they converted $13,200 principal. We issued Panache 240,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.055 per share.

On October 1, 2012, Southridge executed a final debt to equity conversion of a $100,000 short-term promissory note dated October 26, 2011 in which they converted $16,050 principal and $219 in interest. We issued Southridge 325,384 common shares pursuant to Rule 144 based on an agreed conversion price of $0.05 per share.

On October 1, 2012, Southridge executed a partial debt to equity conversion of a $20,000 short-term promissory note dated November 14, 2011 in which they converted $10,900 principal and $1,398 in interest. We issued Southridge 245,967 common shares pursuant to Rule 144 based on an agreed conversion price of $0.05 per share.

On October 2, 2012, Southridge executed a final debt to equity conversion of a $20,000 short-term promissory note dated November 14, 2011 in which they converted $9,100 principal and $18 in interest. We issued Southridge 182,351 common shares pursuant to Rule 144 based on an agreed conversion price of $0.05 per share.

On October 3, 2012, SGI Group executed a partial debt to equity conversion of the $30,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $9,000 principal and $106 in interest. We issued SGI Group 364,248 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On October 4, 2012, Panache executed a partial debt to equity conversion of a $25,000 short-term promissory note dated February 28, 2012 in which they converted $6,600 principal. We issued Panache 240,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0275 per share.

On October 10, 2012, FLUX Carbon Starter Fund executed a partial debt to equity conversion of a $38,500 short-term promissory note dated October 4, 2012 in which they converted $15,000 principal. We issued FLUX Carbon Starter 300,000 restricted common shares pursuant to Rule 144 based on an agreed conversion price of $0.05 per share.

On October 11, 2012, OTC Global Partners executed a final debt to equity conversion of the $30,000 short-term promissory note in which they converted $18,000 in principal. We issued OTC Global Partners 240,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.05 per share.

On October 18, 2012, Southridge executed a partial debt to equity conversion of a $17,000 short-term promissory note dated December 19, 2011 in which they converted $15,900 principal and $1,125 in interest. We issued Southridge 681,010 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On October 23, 2012, Panache executed a final debt to equity conversion of a $25,000 short-term promissory note dated February 28, 2012 in which they converted $5,200 principal and $1,512 in interest. We issued Panache 244,061 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0275 per share.

On October 24, 2012, Levin Consulting Group executed a partial debt to equity conversion of the $70,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $12,200 principal and $214 in interest. We issued Levin Consulting Group 496,417 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On October 24, 2012, SGI Group executed a partial debt to equity conversion of the $30,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $5,100 principal and $88 in interest. We issued SGI Group 207,528 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On November 6, 2012, Southridge executed a final debt to equity conversion of a $17,000 short-term promissory note dated December 19, 2011 in which they converted $1,100 principal and $26 in interest. We issued Southridge 45,043 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On November 6, 2012, Southridge executed a debt to equity conversion of a $30,000 short-term promissory note dated March 19, 2012 in which they converted $30,000 principal and $1,433 in interest. We issued Southridge 1,257,337 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On November 6, 2012, Southridge executed a partial debt to equity conversion of an $11,000 short-term promissory note dated April 9, 2012 in which they converted $2,750 principal and $475 in interest. We issued Southridge 128,998 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On November 21, 2012, Southridge executed a final debt to equity conversion of an $11,000 short-term promissory note dated April 9, 2012 in which they converted $8,250 principal and $53 in interest. We issued Southridge 332,122 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On November 21, 2012, Southridge executed a debt to equity conversion of a $2,500 short-term promissory note dated April 26, 2012 in which they converted $2,500 principal and $111 in interest. We issued Southridge 1,104,427 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On November 21, 2012, Southridge executed a debt to equity conversion of an $8,000 short-term promissory note dated May 15, 2012 in which they converted $8,000 principal and $321 in interest. We issued Southridge 332,835 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On December 18, 2012, Levin Consulting Group executed a partial debt to equity conversion of the $70,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $10,000 principal and $315 in interest. We issued Levin Consulting Group 1,085,800 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0095 per share. On January 10, 2013 we issued Levin Consulting Group an additional 633,383 shares because the closing bid price on the clearing date fell below the Initial closing bid price.

On December 18, 2012, SGI Group executed a partial debt to equity conversion of the $30,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $10,000 principal and $315 in interest. We issued SGI Group 1,085,800 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0095 per share.

On December 21, 2012, WHC Capital LLC executed a partial debt to equity conversion of the $46,400 short-term promissory note originally dated December 10, 2010 and purchased on August 20, 2012 from a private investor, in which they converted $9,329 principal. We issued WHC Capital LLC 982,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0095 per share.

On January 8, 2013, ASC Recap executed a partial debt to equity conversion of the $180,769 balance of a short-term promissory originally dated December 15, 2009 and purchased on December 12, 2012 from a private investor, in which they converted $11,115 principal. We issued ASC Recap 1,852,500 common shares pursuant to Rule 144 based on an agreed conversion price of $0.006 per share.

On January 8, 2013, SGI Group executed a partial debt to equity conversion of the $30,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $5,900 principal and $4,400 in interest. We issued SGI Group 1,716,672 common shares pursuant to Rule 144 based on an agreed conversion price of $0.006 per share.

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On January 10, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $10,000 principal. We issued Magna 1,554,002 common shares pursuant to Rule 144 based on an agreed conversion price of $0.006435 per share.

On January 15, 2013, WHC Capital LLC executed a partial debt to equity conversion of the $46,400 short-term promissory note originally dated December 10, 2010 and purchased on August 20, 2012 from a private investor, in which they converted $5,945 principal. We issued WHC Capital LLC 1,033,900 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00575 per share.

On January 18, 2013, ASC Recap executed a partial debt to equity conversion of the $180,769 balance of a short-term promissory originally dated December 15, 2009 and purchased on December 12, 2012 from a private investor, in which they converted $11,100 principal. We issued ASC Recap 1,850,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.006 per share.

On January 18, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $13,600 principal. We issued Magna 1,766,234 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0077 per share.

On January 23, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $12,500 principal. We issued Redwood 2,192,982 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0057 per share.

On January 28, 2013, WHC Capital LLC executed a partial debt to equity conversion of the $46,400 short-term promissory note originally dated December 10, 2010 and purchased on August 20, 2012 from a private investor, in which they converted $4,726 in principal and $5,019 in premium. We issued WHC Capital LLC 1,949,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.005 per share.

On January 28, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $9,900 principal. We issued Magna 1,766,234 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0055 per share.

On January 28, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $12,500 principal. We issued Redwood 2,272,727 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0055 per share.

On February 1, 2013, Levin Consulting Group executed a partial debt to equity conversion of the $70,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $7,000 principal and $248 in interest. We issued Levin Consulting Group 1,767,771 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0041 per share. On February 22, 2013 we issued Levin Consulting Group an additional 3,409,271 shares because the closing bid price on the clearing date fell below the Initial closing bid price.

On February 1, 2013, SGI Group executed a partial debt to equity conversion of the $30,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $2,857 in interest. We issued SGI Group 696,878 common shares pursuant to Rule 144 based on an agreed conversion price of $0.006 per share. On February 11, 2013 we issued SGI Group an additional 446,002 shares because the closing bid price on the clearing date fell below the Initial closing bid price.

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On February 6, 2013, Southridge executed a debt to equity conversion of a $6,672 short-term promissory note dated June 18, 2012 in which they converted $6,672 principal and $338 in interest. We issued Southridge 2,046,658 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00343 per share.

On February 6, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $6,500 principal. We issued Magna 4,166,667 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00156 per share.

On February 6, 2013, WHC Capital LLC executed a partial debt to equity conversion of the $46,400 short-term promissory note originally dated December 10, 2010 and purchased on August 20, 2012 from a private investor, in which they converted $5,843 in premium. We issued WHC Capital LLC 2,050,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00285 per share.

On February 6, 2013, ASC Recap executed a partial debt to equity conversion of the $180,769 balance of a short-term promissory originally dated December 15, 2009 and purchased on December 12, 2012 from a private investor, in which they converted $5,375 principal. We issued ASC Recap 1,628,788 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0033 per share.

On February 6, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $3,500 principal. We issued Redwood 2,121,212 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00165 per share.

On February 12, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $5,000 principal. We issued Redwood 3,030,303 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00165 per share.

On February 12, 2013, Southridge executed a partial debt to equity conversion of a $25,000 short-term promissory note dated August 2, 2012 in which they converted $7,475 principal and $1,058 in interest. We issued Southridge 4,162,212 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00205 per share.

On February 14, 2013, Southridge executed a partial debt to equity conversion of a $25,000 short-term promissory note dated August 2, 2012 in which they converted $2,185 principal and $11 in interest. We issued Southridge 1,626,636 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00135 per share.

On February 15, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $6,100 principal. We issued Magna 6,931,819 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00088 per share.

On February 18, 2013, Black Arch executed a partial debt to equity conversion of a $95,000 Promissory Note originally dated August 15, 2012 which they purchased $15,000 Principal from Southridge on February 11, 2013, in which they converted $7,500 principal. We issued Black Arch 5,555,556 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00135 per share.

On February 19, 2013, WHC Capital LLC executed a partial debt to equity conversion of the $46,400 short-term promissory note originally dated December 10, 2010 and purchased on August 20, 2012 from a private investor, in which they converted $4,083 in premium. We issued WHC Capital LLC 3,711,600 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0011 per share.

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On February 20, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $3,400 principal. We issued Redwood 3,863,636 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00088 per share.

On February 20, 2013, a private investor executed a partial debt to equity conversion of a $95,000 Promissory Note originally dated August 15, 2012 which they purchased $5,000 Principal from Southridge on February 11, 2013, in which they converted $3,000 principal. We issued the private investor 2,736,273 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0011 per share.

On February 22, 2013, Southridge executed a partial debt to equity conversion of a $25,000 short-term promissory note dated August 2, 2012 in which they converted $6,325 principal and $49 in interest. We issued Southridge 5,794,832 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0011 per share.

On February 26, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $3,500 principal. We issued Redwood 3,977,272 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00088 per share.

On February 27, 2013, WHC Capital LLC executed a partial debt to equity conversion of the $46,400 short-term promissory note originally dated December 10, 2010 and purchased on August 20, 2012 from a private investor, in which they converted $10,800 in premium. We issued WHC Capital LLC 12,000,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0009 per share.

On March 5, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $3,950 principal. We issued Redwood 4,488,636 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00088 per share.

On March 5, 2013, Black Arch executed a final debt to equity conversion of a $95,000 Promissory Note originally dated August 15, 2012 which they purchased $15,000 Principal from Southridge on February 11, 2013, in which they converted $7,500 principal and $44 in interest. We issued Black Arch 8,382,648 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0009 per share. On March 21, 2013 we issued Black Arch Group an additional 3,224,096 shares because the closing bid price on the clearing date fell below the Initial closing bid price.

On March 5, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $6,100 principal. We issued Magna 6,931,819 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00088 per share.

On March 5, 2013, Southridge executed a partial debt to equity conversion of a $25,000 short-term promissory note dated August 2, 2012 in which they converted $4,865 principal and $60 in interest. We issued Southridge 5,794,440 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00085 per share.

On March 7, 2013, a private investor executed a partial debt to equity conversion of a $95,000 Promissory Note originally dated August 15, 2012 which they purchased $5,000 Principal from Southridge on February 11, 2013, in which they converted $2,000 principal and $11 in interest. We issued the private investor 2,365,882 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00085 per share.

On March 13, 2013, Southridge executed a final debt to equity conversion of a $25,000 short-term promissory note dated August 2, 2012 in which they converted $4,150 principal. We issued Southridge 6,384,615 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00065 per share.

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On March 13, 2013, Southridge executed a partial debt to equity conversion of a $30,000 short-term promissory note dated September 5, 2012 in which they converted $4,755 principal and $1,243 in interest. We issued Southridge 9,227,292 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00065 per share.

On March 13, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $4,620 principal. We issued Magna 7,000,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00066 per share.

On March 13, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $6,400 principal. We issued Redwood 8,311,688 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00077 per share.

On March 13, 2013, WHC Capital LLC executed a partial debt to equity conversion of the $46,400 short-term promissory note originally dated December 10, 2010 and purchased on August 20, 2012 from a private investor, in which they converted $656 premium and $643 in interest. We issued WHC Capital LLC 1,998,308 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00065 per share.

On March 14, 2013, SGI Group executed a partial debt to equity conversion of a $95,000 Promissory Note originally dated August 15, 2012 which they purchased $10,000 Principal from Southridge on February 11, 2013, in which they converted $6,700 principal and $70 in interest. We issued SGI Group 10,416,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00065 per share.

On March 14, 2013, Levin Consulting Group executed a partial debt to equity conversion of the $70,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $6,500 principal and $294 in interest. We issued Levin Consulting Group 10,452,215 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00065 per share.

On March 20, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $5,250 principal. We issued Redwood 8,750,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0006 per share.

On March 20, 2013, Panache executed a partial debt to equity conversion of a $25,000 short-term promissory note dated September 6, 2012 in which they converted $3,900 principal. We issued Panache 6,500,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0006 per share.

On March 21, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $3,616 principal. We issued Tangiers 6,026,789 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0006 per share.

On March 22, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $5,005 principal. We issued Magna 7,000,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.000715 per share.

On March 27, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $7,049 principal. We issued Tangiers 12,817,145 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00055 per share.

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On April 1, 2013, Southridge executed a partial debt to equity conversion of a $30,000 short-term promissory note dated September 5, 2012 in which they converted $14,990 principal and $66 in interest. We issued Southridge 23,163,689 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00065 per share.

On April 1, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $5,500 principal. We issued Redwood 9,166,667 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0006 per share.

On April 2, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $4,628 principal. We issued Tangiers 9,256,920 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0005 per share.

On April 4, 2013, WHC Capital LLC executed a partial debt to equity conversion of the $10,000 short-term promissory note originally dated November 20, 2009 and purchased on March 22, 2013 from a private investor, in which they converted $6,864 in premium. We issued WHC Capital LLC 17,160,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.004 per share.

On April 5, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $8,169 principal. We issued Tangiers 32,676,600 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0005 per share.

On April 5, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $2,600 principal. We issued Redwood 9,454,545 common shares pursuant to Rule 144 based on an agreed conversion price of $0.000275 per share.

On April 5, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $4,015 principal. We issued Magna 14,600,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.000275 per share.

On April 8, 2013, Southridge executed a partial debt to equity conversion of a $30,000 short-term promissory note dated September 5, 2012 in which they converted $9,240 principal and $25 in interest. We issued Southridge 23,161,811 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0004 per share. On April 24, 2013 we issued Southridge an additional 13,897,087 shares because the closing bid price on the clearing date fell below the Initial closing bid price.

On April 9, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $4,380 principal. We issued Magna 19,909,091 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00022 per share.

On April 9, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $7,626 principal. We issued Tangiers 38,129,900 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0002 per share.

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On April 15, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $7,577 principal. We issued Tangiers 50,513,800 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00015 per share.

On April 18, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $3,200 principal. We issued Redwood 29,090,909 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00011 per share.

On April 19, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $6,600 principal. We issued Magna 60,000,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00011 per share.

On April 19, 2013, Panache executed a partial debt to equity conversion of a $25,000 short-term promissory note dated September 6, 2012 in which they converted $5,920 principal. We issued Panache 59,200,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0006 per share.

On April 22, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $5,396 principal. We issued Tangiers 53,964,900 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0001 per share.

On April 23, 2013, Levin Consulting Group executed a partial debt to equity conversion of the $70,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $6,500 principal and $349 in interest. We issued Levin Consulting Group 68,493,200 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0001 per share.

On April 23, 2013, SGI Group executed a final debt to equity conversion of a $95,000 Promissory Note originally dated August 15, 2012 which they purchased $10,000 Principal from Southridge on February 11, 2013, in which they converted $3,300 principal and $85 in interest. We issued SGI Group 33,853,200 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0001 per share. On April 24, 2013 we issued SGI Group an additional 33,835,200 shares because the closing bid price on the clearing date fell below the Initial closing bid price.

On April 23, 2013, SGI Group executed a partial debt to equity conversion of a $15,000 short-term promissory note dated August 20, 2012 in which they converted $3,250 principal and $220 in interest. We issued SGI Group 34,698,300 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0001 per share. On April 24, 2013 we issued SGI Group an additional 34,698,300 shares because the closing bid price on the clearing date fell below the Initial closing bid price.

On April 24, 2013, Southridge executed a final debt to equity conversion of a $30,000 short-term promissory note dated September 5, 2012 in which they converted $1,015 principal and $2 in interest. We issued Southridge 5,086,123 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0002 per share.

On April 24, 2013, Southridge executed a partial debt to equity conversion of a $30,000 short-term promissory note dated September 19, 2012 in which they converted $3,485 principal and $1,427 in interest. We issued Southridge 49,118,493 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0001 per share.

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On April 24, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $4,300 principal. We issued Redwood 39,090,909 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00011 per share.

On April 26, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $4,000 principal. We issued Tangiers 79,995,200 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00005 per share.

On April 29, 2013, Linda Grable, our CEO and Chairman of the Board, executed a debt to equity conversion of an $8,000 short-term promissory note dated April 1, 2013 in which she converted $8,000 principal. We issued Linda Grable 80,000,000 restricted common shares pursuant to Rule 144 based on an agreed conversion price of $0.0001 per share. Ms. Grable is deemed an affiliated party.

On April 30, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $6,600 principal. We issued Magna 120,000,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.000055 per share.

On April 30, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $5,485 principal. We issued Tangiers 109,696,200 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00005 per share.

On May 3, 2013, WHC Capital LLC executed a final debt to equity conversion of the $10,000 short-term promissory note originally dated November 20, 2009 and purchased on March 22, 2013 from a private investor, in which they converted $3,136 in premium and $56 in interest. We issued WHC Capital LLC 63,847,600 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00005 per share.

On May 6, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $6,633 principal. We issued Tangiers 132,663,600 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00005 per share.

On May 8, 2013, Southridge executed a partial debt to equity conversion of a $30,000 short-term promissory note dated September 19, 2012 in which they converted $4,065 principal and $46 in interest. We issued Southridge 82,229,841 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00005 per share.

On May 9, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $3,998 principal. We issued Redwood 79,960,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00005 per share.

On May 9, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $11,000 principal. We issued Magna 200,000,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.000055 per share.

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On May 10, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $9,221 principal. We issued Tangiers 184,425,800 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00005 per share.

All debt conversions were consummated at the contractual terms agreed upon for each loan. Accordingly, there was no gain/loss on conversions.

From January 2011 to April 2011, Southridge acquired promissory notes from a private investor totaling $800,000 in principal and 110,728 shares of common stock which were issued as collateral. Southridge proposed that we amend the conversion terms of the notes permitting the holder to convert the notes and we agreed to the amendment. From January 12, 2011 to May 18, 2012, Southridge issued notices of conversion to settle $700,000 in principal plus accrued premiums totaling $395,699 into 810,406 shares of our common stock, of which 103,606 shares were collateral shares and 706,800 new shares were issued pursuant to Rule 144.

As of the date of this report, we owe a total of $1,760,386 of short term debt of which $1,129,436 is principal, $571,018 is accrued premium and $59,931 is accrued interest. We have repaid aggregate principal and premium in the amount of $173,376 on these short-term notes and a total of $2,964,632 principal, $450,830 in premium, and $91,701 in interest has been converted into 2,159,559,970 shares of our common stock of which 103,606 shares were collateral shares and 2,159,559,970 new shares were issued pursuant to Rule 144. Out of the original 103,606 shares of common stock held as collateral, a balance of 7,122 shares remains on the $85,985 principal of the remaining notes.

There can be no assurances that we will be able to pay our short-term loans when due. If we default on any or all of the notes due to the lack of new funding, the holders could exercise their right to sell the remaining 103,606 collateral shares and could take legal action to collect the amount due which could materially adversely affect IDSI and the value of our stock.

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ISSUANCE OF STOCK IN CONNECTION WITH LONG-TERM LOANS

On February 23, 2011, we entered into a Convertible Promissory Note Agreement with an unaffiliated third party, JMJ Financial (the "Lender" or "JMJ"), relating to a private placement of a total of up to $1,800,000 in principal amount of a Convertible Promissory Note (the "Note") providing for advances of a gross amount of $1,600,000 in seven tranches. Pursuant to the terms of a Registration Rights Agreement (the "Rights Agreement") dated February 23, 2011, between the Company and JMJ, we are required to file within 10 days from the effective date of an increase of authorized shares approved by our shareholders, an S-1 Registration Statement (the "Registration Statement") covering 130,000,000 shares of Company common stock to be reserved for conversion of the Note.

Although our shareholders on July 12, 2011, voted to increase our authorized shares to 2,000,000,000, we have not filed the registration statement as required by the Rights Agreement.

The Note provides for funding in seven tranches as stipulated in the Funding Schedule attached. The first tranche of $300,000 was closed on February 24, 2011, and we received $258,000 after deductions of $30,000 for a 10% Finder's Fee and $12,000 for an Origination Fee. The second tranche of $100,000 closed on May 20, 2011, and we received $93,000 after deduction of $7,000 for a 7% Finder's Fee. A partial closing on the third tranche of $35,000 closed on October 7, 2011 and we received $32,250 after deduction of $2,750 for a 7% Finder's Fee. A partial closing on the third tranche of $25,000 closed on February 8, 2012 and we received $25,000. In connection with this partial third tranche we will pay a 7% Finder's Fee, which is $1,750. A partial closing on the third tranche of $25,000 closed on February 29, 2012 and we received $25,000. In connection with this partial third tranche we will pay a 7% Finder's Fee, which is $1,750. A final closing on the third tranche of $15,000 closed on April 4, 2012 and we received $15,000. In connection with this final third tranche we will pay a 7% Finder's Fee, which is $1,050. A partial closing on the fourth tranche of $10,000 closed on October 3, 2012 and we received $10,000. In connection with this partial fourth tranche we will pay a 7% Finder's Fee, which is $700. Although we are not being funded based on the on achievement of milestones relating to the Registration Statement, we continue to draw funds from the Promissory Note from time to time based on the lender's ability to fund us. For the remaining three tranches, we are obligated to pay a Finder's Fee equal to 7% in cash at each closing date. We may cancel the unfunded portion of the Agreement at a fee of 20% of the unfunded amount. As of the date of this report, $1,290,000 in principal amount remains unfunded and if we choose to cancel we will have to pay JMJ $258,000 to terminate the agreement.

The Note, after the seven tranches are drawn, would generate net proceeds of $1,467,000 after payment of the Origination Fee and a 7% Finder's Fee. JMJ has the option to provide an additional $1,600,000 of funding on substantially the same terms as the first Agreement; however, we have the right to cancel, without penalty, the Note Agreement within five days of JMJ's execution. Once executed and accepted by both parties and five days has passed, cancellation of unfunded payments is permitted at a fee of 20% of the unfunded amount. Cancellation of funded portions is not permitted.

The funding schedule of the seven tranches is as follows:

- $300,000 paid to Borrower within 2 business days of execution and closing of the agreement.
- $100,000 paid to Borrower within 5 business days of filing of Definitive Proxy to increase authorized shares to 2,000,000,000 or more.
- $100,000 paid to Borrower within 5 business days of effective increase in authorized shares to 2,000,000,000 or more.
- $100,000 paid to Borrower within 5 business days of filing of registration statement, and that registration statement must be filed no later than 10 days from the effective increase of authorized shares.

- $400,000 paid to Borrower within 5 business days of notice of effective registration statement, and that registration statement must be effective no later than 120 days from the execution of the agreement.

- $300,000 paid to Borrower within 90 business days of notice of effective registration statement, and that registration statement must be effective no later than 120 days from the execution of the agreement.

- $300,000 paid to Borrower within 150 business days of notice of effective registration statement, and that registration statement must be effective no later than 120 days from the execution of the agreement.

The conditions to funding each payment are as follows:

- At the time of each payment interval, the Conversion Price calculation on Borrower's common stock must yield a Conversion Price equal to or greater than $0.015 per share (based on the Conversion Price calculation, regardless of whether a conversion is actually completed or not).

- At the time of each payment interval, the total dollar trading volume of Borrower's common stock for the previous 23 trading days must be equal to or greater than $1,000,000. The total dollar volume will be calculated by removing the three highest dollar volume days and summing the dollar volume for the remaining 20 trading days.

- At the time of each payment interval, there shall not exist an event of default as described within any of the agreements between Borrower and Holder.

Prior to the maturity date of February 2, 2014, JMJ may convert both principal and interest into our common stock at 75% of the average of the three lowest closing prices in the 20 days previous to the conversion. We have the right to enforce a conversion floor of $0.015 per share; however, if we receive a conversion notice in which the Conversion Price is less than $0.015 per share, JMJ will incur a conversion loss [(Conversion Loss = $0.015 – Conversion Price) x number of shares being converted] which we must make whole by either of the following options: pay the conversion loss in cash or add the conversion loss to the balance of principal due. Prepayment of the Note is not permitted.

The Note has a 9% one-time interest charge on the principal sum. No interest or principal payments are required until the Maturity Date, but both principal and interest may be included in conversions prior to the maturity date.

On August 24, 2011, JMJ executed a debt to equity conversion of $36,015 in principal of the first tranche of $300,000 which we closed on February 24, 2011. We issued JMJ 7,000 common shares pursuant to Rule 144 based on a conversion price of $5.15 per share.

On August 31, 2011, JMJ executed a debt to equity conversion of $41,160 in principal of the first tranche of $300,000 which we closed on February 24, 2011. We issued JMJ 8,000 common shares pursuant to Rule 144 based on a conversion price of $5.15 per share.

On September 15, 2011, JMJ executed a debt to equity conversion of $37,597 in principal of the first tranche of $300,000 which we closed on February 24, 2011. We issued JMJ 8,200 common shares pursuant to Rule 144 based on a conversion price of $4.59 per share.

On September 28, 2011, JMJ executed a debt to equity conversion of $40,950 in principal of the first tranche of $300,000 which we closed on February 24, 2011. We issued JMJ 10,000 common shares pursuant to Rule 144 based on a conversion price of $4.10 per share.

On October 12, 2011, JMJ executed a debt to equity conversion of $36,750 in principal of the first tranche of $300,000 which we closed on February 24, 2011. We issued JMJ 10,000 common shares pursuant to Rule 144 based on a conversion price of $3.68 per share.

On December 15, 2011, JMJ executed a debt to equity conversion of $63,840 in principal of the first tranche of $300,000 which we closed on February 24, 2011. We issued JMJ 40,000 common shares pursuant to Rule 144 based on a conversion price of $1.60 per share.

On January 24, 2012, JMJ executed a debt to equity conversion totaling $44,100 of which $43,688 was principal and $412 was consideration for the first tranche of $300,000, which we closed on February 24, 2011. We issued JMJ 60,000 common shares pursuant to Rule 144 based on a conversion price of $0.74 per share.

On February 9, 2012, JMJ executed a debt to equity conversion totaling $44,100 of which $37,088 was consideration and $7,012 was interest for the first tranche of $300,000, which we closed on February 24, 2011. We issued JMJ 70,000 common shares pursuant to Rule 144 based on a conversion price of $0.63 per share.

On February 29, 2012, JMJ executed a debt to equity conversion totaling $39,550 of which $19,988 was interest for the first tranche of $300,000, which we closed on February 24, 2011 and $19,562 was principal for the second tranche of $100,000, which we closed on May 20, 2011. We issued JMJ 100,000 common shares pursuant to Rule 144 based on a conversion price of $0.40 per share.

On April 24, 2012, JMJ executed a debt to equity conversion of $29,120 in principal of the second tranche of $100,000 which we closed on May 20, 2012. We issued JMJ 104,000 common shares pursuant to Rule 144 based on a conversion price of $0.28 per share.

On May 9, 2012, JMJ executed a debt to equity conversion of $28,980 in principal of the second tranche of $100,000 which we closed on May 20, 2012. We issued JMJ 138,000 common shares pursuant to Rule 144 based on a conversion price of $0.21 per share.

On May 14, 2012, JMJ executed a debt to equity conversion of $4,389 in principal of the second tranche of $100,000 which we closed on May 20, 2011. We issued JMJ 38,000 common shares pursuant to Rule 144 based on a conversion price of $0.12 per share.

On May 24, 2012, JMJ executed a debt to equity conversion of $22,260 in principal of the second tranche of $100,000 which we closed on May 20, 2011. We issued JMJ 212,000 common shares pursuant to Rule 144 based on a conversion price of $0.11 per share.

On May 31, 2012, JMJ executed a debt to equity conversion of $2,940 in principal of the second tranche of $100,000 which we closed on May 20, 2011. We issued JMJ 28,000 common shares pursuant to Rule based on a conversion price of $0.11 per share.

On June 6, 2012, JMJ executed a debt to equity conversion totaling $19,551 of which $14,249 was interest for the second tranche of $100,000, which we closed on May 20, 2011 and $5,302 was principal for the third tranche of $35,000, which we closed on October 7, 2011. We issued JMJ 210,000 common shares pursuant to Rule 144 based on a conversion price of $0.093 per share.

On September 7, 2012, JMJ executed a debt to equity conversion of $19,572 in principal of the third tranche of $35,000, which we closed on October 7, 2011. We issued JMJ 240,000 common shares pursuant to Rule 144 based on a conversion price of $0.082 per share.

On October 3, 2012, JMJ executed a debt to equity conversion totaling $42,000 of which $14,501 was principal and $3,150 was interest for the third tranche of $35,000, which we closed on October 7, 2011; and $24,349 was principal of the fourth tranche of $25,000, which we closed on February 8, 2012. We issued JMJ 600,000 common shares pursuant to Rule 144 based on a conversion price of $0.07 per share.

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On October 24, 2012, JMJ executed a debt to equity conversion totaling $10,500 of which $3,776 was principal and $2,250 was interest for the fourth tranche of $25,000, which we closed on February 8, 2012; and $4,474 was principal of the fifth tranche of $25,000, which we closed on February 29, 2012. We issued JMJ 300,000 common shares pursuant to Rule 144 based on a conversion price of $0.035 per share.

On January 16, 2013, JMJ executed a debt to equity conversion of $7,455 in principal of the fifth tranche of $25,000, which we closed on February 29, 2012. We issued JMJ 895,000 common shares pursuant to Rule 144 based on a conversion price of $0.00833 per share.

On January 29, 2013, JMJ executed a debt to equity conversion of $6,334 in principal of the fifth tranche of $25,000, which we closed on February 29, 2012. We issued JMJ 890,000 common shares pursuant to Rule 144 based on a conversion price of $0.007117 per share.

On February 11, 2013, JMJ executed a debt to equity conversion of $10,083 in principal of the fifth tranche of $25,000, which we closed on February 29, 2012. We issued JMJ 2,900,000 common shares pursuant to Rule 144 based on a conversion price of $0.003477 per share.

On February 20, 2013, JMJ executed a debt to equity conversion of $2,028 in principal of the fifth tranche of $25,000, which we closed on February 29, 2012; and $3,335 in principal of the sixth tranche of $15,000, which we closed on April 5, 2012. We issued JMJ 2,910,000 common shares pursuant to Rule 144 based on a conversion price of $0.001843 per share.

On February 27, 2013, JMJ executed a debt to equity conversion of $5,226 in principal of the sixth tranche of $15,000, which we closed on April 5, 2012. We issued JMJ 3,500,000 common shares pursuant to Rule 144 based on a conversion price of $0.001493 per share.

On March 5, 2013, JMJ executed a debt to equity conversion of $7,425 in principal of the sixth tranche of $15,000, which we closed on April 5, 2012. We issued JMJ 5,400,000 common shares pursuant to Rule 144 based on a conversion price of $0.001377 per share.

On March 5, 2013, JMJ executed a debt to equity conversion of $2,229 in principal and interest of the sixth tranche of $15,000, which we closed on April 5, 2012; and $5,625 was the balance owed of consideration on the principal from the prior six tranches. We issued JMJ 7,829,800 common shares pursuant to Rule 144 based on a conversion price of $0.001003 per share.

All debt conversions were consummated at the contractual terms agreed upon for each loan. Accordingly, there was no gain/loss on conversions.

As of the date of this report, we owe a total of $12,263 in long-term debt. Of the $12,263 we owe a total of $10,000 in principal, $1,250 is consideration on the principal and $1,013 is interest.

As of the date of this report, if all of the outstanding convertible promissory notes totaling $1,772,649 were converted based on the closing bid price of $0.0001, we would be required to issue approximately 25 billion shares. Based on the 2,124,402,540 current issued and outstanding shares and our current authorized of 10 billion shares, we would require an additional 17 billion authorized shares to satisfy the potential conversions.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of the date of this report, we believe that we do not have any material quantitative and qualitative market risks.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that the information required to be disclosed in the reports that we file under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

As of June 30, 2011 we had a material weakness in our internal controls over financial reporting and have made the following change to correct this material weakness. We have amended our internal controls over financial reporting whereby we will internally review newly implemented accounting principles and if necessary, seek an outside opinion from a qualified consultant on newly implemented accounting principles and complex accounting transactions. There have been no other changes in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

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PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None

ITEM 1A. Risk Factors.

Our Annual Report on Form 10-K for the year ended June 30, 2012, includes a detailed discussion of our risk factors. The risks described in our Form 10-K are not the only risks facing IDSI. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. During our second quarter ended December 31, 2012, there were no material changes in risk factors as previously disclosed in our Form 10-K filed on October 15, 2012.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

See Item 5. Other Information –"Financing/Equity Line of Credit".

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable

ITEM 5. SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS.

None

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ITEM 6. OTHER INFORMATION.

CTLM® DEVELOPMENT HISTORY, REGULATORY AND CLINICAL STATUS

Since inception, the entire mission of IDSI was to further develop and refine the CT Laser Mammography system which was invented in 1989 by our late co-founder, Richard J. Grable. The 1994 prototype was built on a platform using then state-of-the-art computer processors which were slow and lasers which were very sensitive to temperature changes and required frequent calibration and servicing.

In order to market and sell the CTLM® in the United States, we must obtain marketing clearance from the Food and Drug Administration. Initially, we were seeking marketing clearance through an application through Pre-Market Approval (PMA) which must be supported by extensive data, including pre-clinical and clinical trial data, as well as evidence to prove the safety and effectiveness of the device.

A PMA is the FDA process of scientific and regulatory review to evaluate the safety and effectiveness of Class III medical devices. Class III devices are those that support or sustain human life, are of substantial importance in preventing impairment of human health, or which present a potentially unreasonable risk of illness or injury. Due to the level of risk associated with Class III devices, the FDA has determined that general and special controls alone are insufficient to assure the safety and effectiveness of Class III devices. Therefore, these devices require a PMA application in order to obtain marketing clearance.

The FDA automatically classifies new technologies in Class III when limited safety information is available and no predicate device is available. It allows for multiple clinical studies to be conducted to collect the necessary data to obtain safety and clinical information to be used for future FDA submissions. At the time that we were developing the CTLM® system and considering marketing clearance there was not enough data on laser based technologies nor were there approved other new medical devices dedicated to breast imaging other than the traditional x-ray technology. As a result, the FDA recommended that we seek a PMA application.

We received FDA approval to begin our non-pivotal clinical study in February 1999. The first CTLM® was installed at Nassau County (NY) Medical Center in July 1999 and a second CTLM® was installed at the University of Virginia Health System. We submitted the non-pivotal clinical data to the FDA in May 2001. In spite of our efforts to control operating temperatures with thermal cooling cabinets for the lasers and voltage stabilizers to control power, our engineering team led by Mr. Grable decided that they would re-design the CTLM® system into a compact, robust system using surface-mount technology for the electronics and a solid state diode laser that did not require a separate chiller to control its operating temperature. It was a case where technology had to catch up with the invention. Unfortunately, Mr. Grable passed away unexpectedly in 2001. It took several years to re-design and test but our efforts were successful and we began to collect the clinical data necessary to file the PMA application.

In May 2003, we filed a PMA application for the CTLM® to the FDA. In August 2003, we received a letter from the FDA citing deficiencies in our PMA application requiring a response to the deficiencies. We initially planned on submitting an amendment to the PMA application to resolve the deficiencies and requested an extension. In March 2004 we received an extension to respond with the amendment; however, in October 2004, we made a decision to voluntarily withdraw the original PMA application and resubmit a modified PMA in a simpler and more clinically and technically robust filing.

In November 2004, we received a letter from the FDA stating that the CTLM® study had been declared a Non-Significant Risk (NSR) study when used for our intended use.

In 2005, we initiated the PMA process by designing a new clinical study protocol and a modified intended use, which limited the participants in the study to patients with dense breast tissue. The inclusion criteria was modified because we believed that we would be more successful in proving our hypothesis of the CTLM® system's intended use and have the most success at obtaining marketing clearance from the FDA. Concurrently, we identified qualified clinical sites and retained them to proceed with our clinical study.

One of the regulatory requirements for a company (sponsor) to conduct a clinical study within a hospital or imaging center is the regulatory body's Institutional Review Board ("IRB") within each hospital or imaging center, which must approve the clinical research the sponsor is requesting. We understood the IRB approval process based on prior experience encountered with the first clinical trial. The IRBs of hospital or imaging centers do not necessarily have a set time frame for reviewing and approving proposed clinical research for a sponsor. Therefore, there is no way a sponsor can anticipate the length of time it will take each IRB to approve the clinical study. We were delayed in this process due to the time it took to obtain the necessary approvals from the IRBs since certain IRBs took longer than others to approve the clinical research.

In 2006, we made changes to bring the CTLM® system to its most current design level. We believe these changes improved the CTLM®'s image quality and reliability. Upgraded CTLM® systems were installed at our U.S. clinical sites and data collection proceeded in accordance with our clinical protocol. The data collection continued from 2006 to 2010, progressing slowly due to low patient volume pursuant to the inclusion criteria of our clinical protocol.

In our clinical trial, the physician at each hospital or imaging center who oversees the clinical study is responsible for ensuring that each patient meets the requirements of the study. However, there is no way to determine if the patient that is having her standard x-ray mammogram qualifies for the clinical study of the CTLM® system. For example, each hospital or imaging center has a variable amount of patients scheduled for their mammogram, but it is impossible to determine whether or not a particular patient would meet the inclusion criteria (requirement) of the clinical study. So if there are 13 patients scheduled for a mammogram, we may get only one, or even none that qualify for the clinical study because it is based on the specific inclusion and exclusion criteria determined in the protocol.

The inclusion and exclusion criteria can outline as little or as much as necessary to prove a study, whether it takes five criteria or 15 criteria to prove the study. In order for a patient to qualify, she must meet all the criteria. Otherwise, she cannot be examined and cannot participate as a patient. Therefore, it is impossible to determine how many patients getting their mammogram will qualify each day for the CTLM clinical study because they must meet all the inclusion and exclusion criteria of the study protocol. As a result, it has been impossible for us to anticipate how many cancer cases we will collect as the study proceeded.

In September 2008, we were advised that we did not have sufficient cancer cases to finish the clinical study required for the PMA statistical analysis to be processed by our independent biostatistician. The clinical study participants were not from a pre-selected patient population. Therefore, we did not know whether the patients had cancer or did not have cancer before they participated in the clinical study.

We announced in March 2009 that our research and development team achieved a technical breakthrough with a new reconstruction algorithm that improved the visualization of angiogenesis in the CTLM® images. Angiogenesis is the process in which new blood vessels are formed in response to a chemical signal sent out by cancerous tumors. The CTLM visualizes the blood distribution in the breast, to detect the new blood vessels (angiogenesis) required for cancerous lesions to grow. The improved algorithm enhances the images by reducing the number of artifacts

occasionally produced during an examination, thereby making diagnosis easier. We also incorporated streamlined numerical methods into the software so that the new algorithm does not require additional computing resources, allowing us to provide the improved functionality to existing customers as a software upgrade.

As of May 2009, 10 clinical sites had participated in the clinical trials and at the time we believed we had sufficient clinical data to support our PMA application. However, we did not have sufficient financing to support the clinical sites, initiate the reading phase, the statistical analysis study and the submission of the PMA application to the FDA.

Through the years, new MRI and other dedicated breast imaging systems gained FDA marketing clearance pursuant to applications under the FDA's Section 510(k) premarket notification. In the last several years, the De Novo 510(k) process became an alternate pathway for new technologies with low to moderate risk an opportunity to seek FDA marketing clearance through this simpler process. In addition, laser safety data and clinical safety and efficacy data were obtained through previous clinical trials to support an FDA application through the traditional 510(k) process. We believe our CTLM® system is of low to moderate risk due to the series of technical studies conducted as well as the series of clinical studies we were engaged in which led the FDA to determine in 2004 that our clinical studies were a Non Significant Risk (NSR) device study.

A Section 510(k) premarket notification is a premarket submission made to the FDA to demonstrate that the device to be marketed is at least as safe and effective as, that is, substantially equivalent to, a legally marketed device that is not subject to PMA. Submitters must compare their device to one or more similar legally marketed devices and make and support their substantial equivalency claims. A legally marketed device is a device that was legally marketed prior to May 28, 1976 for which a PMA is not required, or a device which has been reclassified from Class III to Class II or I, or a device which has been found to be substantially equivalent through the 510(k) process. The legally marketed device(s) to which equivalence is drawn is commonly known as the "predicate" device.

To submit a Section 510(k) premarket notification application, a company must meet the following guidelines:

To demonstrate substantial equivalence to another legally U.S. marketed device, the 510(k) applicant must demonstrate that the new device, in comparison to the predicate:

- has the same intended use as the predicate; and
- has the same technological characteristics as the predicate; or

- has the same intended use as the predicate; and
- has different technological characteristics when compared to the predicate, and
  - does not raise new questions of safety and effectiveness; and
  - demonstrates that the device is at least as safe and effective as the legally marketed device.

One possible outcome resulting from applying for a Section 510(k) premarket notification of intent to market that we believed would have been an option, was the evaluation of automatic class III designation, commonly referred to "De Novo process". The De Novo process is an alternate pathway provided by the FDA to classify certain new devices that had automatically been placed in Class III due to lack of a predicate. The De Novo classification process was created to provide a mechanism for the classification of certain lower-risk devices for which there is no predicate, but would otherwise fall into Class III. The De Novo process is most applicable when the risks of a device are well-understood and appropriate special controls can be established to mitigate those risks.

The de novo process cannot be requested until a Section 510(k) premarket notification has been submitted and the FDA responds with a determination that the device is "not substantially equivalent" (NSE) to the predicate device. The FDA then classifies the applicant devices into Class III designation. Applicants who receive a class III determination from the FDA may request an evaluation for reclassification into Class I or II.

In March 2010, we decided to focus on the possibility of obtaining FDA marketing clearance through a Section 510(k) premarket notification for our CTLM® system instead of a PMA application based on our own research of other medical imaging devices that received a Section 510(k) premarket notification, such as the Aurora MRI Breast

Imaging System (the "breast MRI"). Other sources of our research were obtained through reading medical imaging industry publications, the FDA's website, and discussions with attendees at medical imaging trade shows; specifically the Radiological Society of North America in Chicago, IL in November 2009; Arab Health Show in Dubai, UAE in January 2010, and European Congress of Radiology in Vienna, Austria in March 2010. We began the process of examining the various potential predicate devices that could be credible to support our Section 510(k) premarket notification application.

In July 2010, we made our decision to select as our predicate device the breast MRI. This decision was made as a result of our examination of comparative clinical images between CTLM® and breast MRI, which are both functional molecular imaging devices having the ability to visualize angiogenesis in the breast. We began preparing the Section 510(k) premarket notification submission and engaged the services of a FDA regulatory consultant to review our preliminary draft and then re-engaged the services of our FDA regulatory counsel to complete the Section 510(k) premarket notification application and to submit it to the FDA.

On November 22, 2010, we submitted a Section 510(k) premarket notification application to the FDA for its review. We believed that the Section 510(k) premarket notification submission was the best process to obtain U.S. marketing clearance in the least burdensome and most timely manner. FDA marketing clearance would enable us to market and sell the CTLM® system throughout the United States. Also, we believed that receipt of U.S. marketing clearance will substantially enhance our ability to sell the CTLM® in the international market.

On January 21, 2011, we received a request for additional information from the FDA regarding our Section 510(k) premarket notification application. A request for additional information is quite common during the FDA review process. Due to the extensive amount of additional information requested, we filed the response to the FDA request on July 8, 2011. Upon receipt of our response at the FDA offices, the FDA 90-day response time clock was re-activated. Consequently, we expected to get either an FDA determination on our Section 510(k) application or another request for additional information within the next 90-day time frame.

On August 2, 2011, we received official notification from the FDA that the review of our Section 510(k) premarket notification application had been completed and that the FDA determined that the device, (CTLM®), is not substantially equivalent to devices marketed in interstate commerce prior to May 28, 1976, the enactment date of the Medical Device Amendments, or to any device which has been reclassified into Class I (General Controls) or Class II (Special Controls), or to another device found to be substantially equivalent through the Section 510(k) process. This decision to deny our application was based on the fact that the FDA was not aware of a legally marketed preamendments device labeled or promoted for using "Diffuse Optical Tomography" (DOT) to image the optical attenuation properties of breast tissue in order to aid the diagnosis of cancer, other conditions, diseases, or abnormalities. Therefore, this device was classified by statute into class III (Premarket Approval), under Section 513(t) of the Federal Food, Drug, and Cosmetic Act (the "Act"). All FDA determined Class III devices must fall under Section 515(a)(2) of the Act (which) requires a class III device to have an approved application (PMA) before it can be legally marketed.

The determination by the FDA that our CTLM® imaging technology will now be recognized as a DOT device and that there are no other DOT devices known to the FDA, presents us with a unique technological opportunity. Essentially, IDSI could be the first medical imaging company to file a PMA application for a Diffuse Optical Tomography breast imaging device. Since the FDA has identified CTLM® as a class III device, a formal clinical study will be required to obtain PMA approval. While we have begun the PMA process and plan to use clinical studies previously collected, if permitted to do so by the FDA, no meaningful progress can be made in this process until we obtain the substantial financing required to cover the costs for any additional new studies that we may need; the cost of a clinical research organization (CRO) to manage the process; the cost of a biostatistician to prepare the statistical report; FDA filing fees; and other costs associated with the PMA process. We believe that we will need at least $1.2 million for this process. A timeline cannot be established until funding is secured. Once funding is secured we plan to collect any additional case studies we may need from our clinical sites. The number of additional cases needed, will be provided by our biostatistician in consultation with the FDA.

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In previous filings, management had disclosed the potential to have our CTLM® device approved through the FDA "De Novo" process. This process would only become an option to us if the FDA did not approve our 510(k) premarket notification of intent to market the device. While waiting for a ruling from the FDA on our 510(k) premarket notification of intent to market the CTLM®, management continued to research the advantages and disadvantages regarding the potential option to initiate a De Novo application if the FDA determined our traditional 510(k) application to be "Not Substantially Equivalent". Our research identified several articles illustrating the potential pitfalls of going down the De Novo pathway. One such article from Medical Device Consultants (MDCI), a full service contract research organization and consulting firm that helps emerging and established firms commercialize novel and innovative medical devices, dated March 21, 2011(*included below*) best summarizes the issues that we would face if we choose the De Novo pathway.

"The De Novo process has been around since the implementation of the FDA Modernization Act of 1997 (FDAMA). The FDAMA was intended to help improve the efficiency of bringing low-risk medical devices to market, allowing for simpler reclassification of devices that were classified as Class III due to the lack of a suitable predicate. The section of the FDAMA that handled this aspect of medical device classification (Section 513(f)(2)) became known as the De Novo process.

De Novo is a two-step process that requires a company to submit a 510(k) and complete a standard review, including an analysis of the risk to the patient and operator associate with the use of the device and the substantial equivalence rationale. Once that has been accomplished, and the medical device in question has been determined to be Not Substantially Equivalent (NSE) by the FDA, the product is automatically classified as a Class III device. The manufacturer can then submit a request for evaluation of Automatic Class III designation to have the product reclassified from Class III into Class I or Class II. The FDA will review the device classification proposal and either recommend special controls to create a new Class I or II device classification or determine that the product is a Class III device. If FDA determines that the level of risk associated with the use of the device is appropriate for a Class II or Class I designation, then the product can be cleared as a 510(k) and FDA will issue a new classification regulation and product code. This also adds the device in question to the predicate pool, which in turn broadens the market for other medical device companies considering products in a similar therapeutic area. If the device is not approved through De Novo, then it must go through the standard premarket approval (PMA) process for Class III devices.

The number of FDA NSE determinations due to the lack of a suitable predicate is very low for those low risk medical devices that have the potential for reaching the market via the De Novo process. Medical device manufacturers are attracted to the cost efficiencies associated with the De Novo process when compared against the investment and post-market FDA oversight associated with a PMA. Unfortunately, the time to market for devices eligible for the De Novo process can be very long.

FDAMA calls for the FDA to review and return a decision on a De Novo reclassification submission within 60 days of receipt (the initial submission must be sent by the manufacturer within 30 days of receiving NSE notification). In practice, however, the amount of time taken to review De Novo requests by the FDA and issue the special controls guidance has risen from 62 days in 2006 to 241 days since 2007. Tacked on to the 510(k) review times, devices traveling the De Novo pathway average 482 days of review time from beginning to end.

Further compounding the delays associated with De Novo is the fact that the entire process resembles a procedural "black hole." The FDA is not required to provide any updates concerning the status of a De Novo application, nor is there any simple way for medical device manufacturers to track a De Novo submission on their own.

De Novo is rare in the realm of low-risk medical devices – a mere 54 products took this particular route between 1998 and 2009. Given the extensive delays associated with the process, MDCI advises medical

device companies to consider all other market approval pathways before deciding on to pursue a De Novo reclassification."

Prepared by Benjamin Hunting, Cindy Nolte, and Helen Mayfield
MDCI Blogging Team"

Understanding that the above statements were a fair representation of the regulatory industry's general feelings towards the FDA De Novo process, management decided to accept and heed the FDA's letter (received on August 2, 2011) detailing their decision of CTLM® being "not substantially equivalent" and furthermore, accepting their recommendation that CTLM® is a class III device that would require a PMA submission. Other considerations such as comparing time frames between De Novo and the PMA process were taken into account. The average De Novo application took 482 days to be reviewed compared to the average PMA review of 284 days. In addition, upon further review, both the De Novo and PMA process require virtually identical clinical safety and efficacy data; therefore, the PMA path was chosen. Management has identified potential FDA regulatory consultants who can guide us through the complete PMA application process and is presently in contract negotiations with several prospective consulting firms. We will not be able to engage the services of an FDA consulting firm or a biostatistician until we have a commitment for funding. There can be no assurance that we will obtain this funding.

Progress toward re-submitting a PMA application during Fiscal Year 2012 and the ten months of Fiscal Year 2013 was significantly delayed and then eventually halted simply due to lack of funding to hire the necessary FDA consultants required to assist in the process. Our employees had reached their level of FDA expertise related to preparing the "ground work" for a PMA application submission and could not proceed any further without the expert assistance of FDA consultants.

During the fiscal year ended June 30, 2012, there was a significant reduction in key Company staff due to employee resignations, retirement and layoffs, which reduced operating overhead until additional external funding could be secured. We will not hire replacement staff until such time as we have secured sufficient funding to complete the PMA filing with the FDA. Prior to the reduction in key staff members, an internal PMA application strategy that might allow inclusion of previously collected patient data was developed. This approach (generally referred to as a PMA Protocol) will need to be qualified by our FDA consultants prior to presenting our approach to the FDA Reviewers/Examiners. The forum for this process is generally referred to as an FDA "Pre- IDE" meeting (essentially a pre-clinical meeting) between the Company, its FDA Consultants and the FDA/PMA Examiners. During the "Pre-IDE" meeting, the Company (and its FDA Consultants) would present their approach for both data collection, patient selection and data analysis. The FDA Reviewers would provide input (critique and suggestions) to us as to what they believe an acceptable PMA protocol would require. Once agreement is reached by all parties the next logical step is to implement the protocol. .

In summary, our management team now believes that the more structured and proven PMA application approach with its semi-rigid timetable for mandatory responses would provide us with the best route to achieve marketing clearance for our innovative new imaging modality that in the future will be classified as Diffuse Optical Tomography.

The CTLM® system is a Diffuse Optical Tomography (DOT) CT-like scanner. Its energy source is a laser beam and not ionizing radiation such as is used in conventional x-ray mammography or CT scanners. The advantages of imaging without ionizing radiation may be significant in our markets. CTLM® is an emerging new imaging modality offering the potential of functional molecular imaging, which can visualize the process of angiogenesis which may be used by the radiologist to distinguish between benign and malignant tissue. X-ray mammography is a well-established method of imaging the breast but has limitations especially in dense breast cases. While x-ray mammography and ultrasound produce two dimensional images (2D) of the breast, the CTLM® produces 3D images. Ultrasound is often used as an adjunct to mammography to help differentiate tumors from cysts or to localize a biopsy site. We believe the CTLM® will be used to provide the radiologist with additional information to manage the clinical case; help diagnose breast cancer earlier; reduce diagnostic uncertainty especially in mammographically dense breast cases; and may help decrease the number of biopsies performed on benign lesions.

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Because breast cancers nearly always develop in the dense tissue of the breast (not in the fatty tissue), older women who have mostly dense tissue on a mammogram are at an increased risk of breast cancer. Abnormalities in dense breasts can be more difficult to detect on a mammogram. The CTLM® technology is unique and patented. We intend to develop our technology into a family of related products. We believe these technologies and clinical benefits constitute substantial markets for our products well into the future.

While we believed the net benefits of submitting a 510(k) application outweighed those of a PMA application for the shareholders, patients and customers, the FDA determined that we must file a PMA application to obtain marketing clearance. The high costs and lengthened review period associated with a PMA application are much greater than with a 510(k) submission.

The procedural and substantive differences in the FDA marketing clearance process between a 510(k) application and a PMA application are in the costs associated with the applications and the duration of the review process. The 510(k) filing fee for small business is $2,480, and the fees of the FDA regulatory consultant assisting with the submission and pre-submission review process were approximately $55,000. The PMA filing fee for a small business is $62,000. We estimate that the fees of the FDA regulatory consultants assisting with the PMA submission and the completion of the data collection phase will be approximately $1,000,000.

In our prior SEC filings, we included disclosure regarding the estimated dates by which we believed that we would be able to file our PMA application including December 2008, March 2009, June 2009, March 2010, April 2010 and July 2010. All of these projections proved incorrect. There were many factors contributing to why we were not able to achieve our projected timelines. After each delay, we disclosed in subsequent SEC filings a new projected date based on what we believed at that point in time would be a reasonable estimate of when we would be able to file our application for FDA marketing clearance. The factors contributing to these delays include, but are not limited to, the following:

- Designing a new clinical study protocol and a modified intended use,
- Identifying qualified clinical sites and retaining them to proceed with our clinical study,
- Obtaining the necessary approvals from the Institutional Review Boards ("IRB"),
- Updating the CTLM® system to its most current design level,
- Our research and development team finalizing the improvements regarding the reconstruction algorithm by enhancing the CTLM® images by reducing the number of artifacts which would enable the physician to interpret the images more easily,
- Low patient volume following the inclusion criteria of our clinical protocol,
- Lack of cancer cases required for the PMA statistical analysis, and
- Lack of sufficient financing to support the clinical sites, initiate the reading phase, the statistical analysis study and the preparation and submission of the PMA application to the FDA.

We believed that our Private Equity Credit Agreements would provide substantially all of the financing needed by IDSI for its operations and the costs associated with the filing of our FDA application for marketing clearance. Unfortunately, the continued sale of stock through our Private Equity Credit Agreements caused dilution, a decline in the stock price, and the depletion of our available authorized shares.

There was no assurance that the Section 510(k) premarket notification would result in marketing clearance. Since we were unsuccessful in our pursuit of Section 510(k) marketing clearance, we would have to return to the PMA process, which would take substantial additional time and funding, with no assurance of success.

We are engaging the services of FDA regulatory consultants who specialize in FDA matters. If we are unable to obtain prompt FDA marketing clearance, it will have a material adverse effect on our business and financial condition and would result in postponement of the commercialization of the CTLM®.

In addition, sales of medical devices outside the U.S. may be subject to international regulatory requirements that vary from country to country. The time required to gain approval for international sales may be longer or shorter than required for FDA marketing clearance and the requirements may differ. Also, we believe that receipt of U.S. marketing clearance will substantially enhance our ability to sell the CTLM® in the international market.

Regulatory approvals, if granted, may include significant limitations on the indicated uses for which the CTLM® may be marketed. In addition, to obtain these approvals, the FDA and certain foreign regulatory authorities may impose numerous other requirements which medical device manufacturers must comply with. Product approvals could be withdrawn for failure to comply with regulatory standards or the occurrence of unforeseen problems following initial marketing.

Any products manufactured or distributed by us pursuant to FDA marketing clearance will be subject to pervasive and continuing regulation by the FDA. Labeling, advertising and promotional activities are subject to scrutiny by the FDA and, in certain instances, by the Federal Trade Commission. In addition, the marketing and use of our products may be regulated by various state agencies. The export of medical devices is also subject to regulation in certain instances. Both the FDA and the individual states may inspect the manufacturers of our products on a routine basis for compliance with current QSR regulations and other requirements.

In addition to the foregoing, we are subject to numerous federal, state, and local laws relating to such matters as safe working conditions, manufacturing practices, environmental protection, and fire hazard control. There can be no assurance that we will not be required to incur significant costs to comply with such laws and regulations and that such compliance will not have a material adverse effect upon our ability to conduct business. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations-Cautionary Statements – Extensive Government Regulation, No Assurance of Regulatory Approvals".

The development chronology stated above details how complicated the process is to develop a brand new medical imaging technology. We believe that we have a strong patent portfolio and are the world leader in optical tomography. We have received marketing approval in China and Canada; the CE Mark for the European Union; ISO 13485:2003 registration; UL Electrical Test Certificate; and Product registrations in Brazil and Argentina. The registrations for Brazil and Argentina were not renewed in 2009 because of the costs associated with new testing requirements by UL. We have now completed the Electromagnetic Compatibility ("EMC") testing required by UL and plan to submit our renewal application for these product registrations in 2011. Worldwide, our end users have completed more than 25,000 patient scans, and we have sold 17 CTLM® systems as of the date of this report. Our decision to fund the Company primarily through the sale of equity has enabled us to reach this important milestone.

In fiscal 2010, fiscal 2011, fiscal 2012 and thus far in fiscal 2013, we have used the proceeds from short-term loans, long-term loans and proceeds from our Southridge Private Equity Credit Agreement for working capital. Going forward we intend to use the proceeds from the sale of convertible debentures, convertible preferred shares, convertible promissory notes, and/or alternative financing facilities as our sources of working capital. It is unlikely that we will be able to use our Private Equity Agreement with Southridge or any successor private equity agreements due to the high costs of preparing and filing an S-1 registration statement and the limitation on how many shares can be registered to stay within the window to be deemed a secondary offering. There can be no assurance that the equity credit financing will continue to be available on acceptable terms. Substantial additional financing will be required before and after receipt of FDA marketing clearance, assuming it is received, as to which there can be no assurance. See Item 5. "Financing/Equity Line of Credit."

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Clinical Collaboration Sites Update

CTLM® Systems were installed and patients were scanned under clinical collaboration agreements at the following sites:

1) Humboldt University of Berlin, Charité Hospital, Berlin, Germany
2) The Comprehensive Cancer Centre, Gliwice, Poland
3) Catholic University Hospital, Rome, Italy
4) MeDoc HealthCare Center, Budapest, Hungary
5) Tianjin Medical University's Cancer Institute and Hospital, Tianjin, China

Due to lack of funding, we have been unable to support these clinical sites resulting in a temporary halt to clinical research at several of these sites. We expect to resume supporting their research if and when we have funds available to allocate to this program.

We were pleased to learn in June 2012 that a clinical paper produced by Dr. J. Qi, an independent CTLM® researcher based in Tianjin Medical University Cancer Institute and Hospital Tianjin, China, is pending publication in "Clinical Imaging," a highly respected radiology journal based in New York, NY. Each article accepted for publication undergoes a through review for content and accuracy by an editorial board of Radiologists.

The paper by Dr. Qi titled, "CTLM as an adjunct to Mammography in the diagnosis of Patients with Dense Breasts", reported that when a CTLM® study was combined with a (digital) x-ray based mammogram -breast cancer detection rate otherwise medically referred to as test "sensitivity" was significantly improved from a low of 34.40% to a new high of 81.57% when dealing with Extremely Dense Breasts (ACR classification). In addition, the researchers "could distinguish malignant from benign lesions".

We are very pleased that the clinical benefits of a CTLM® breast exam have been validated by a group of independent researchers. We believe that Dr. Qi's results will be further validated upon completion of our PMA application to the FDA.

The abstract of the article can be found at www.clinicalimaging.org and searched under the title "CTLM as an adjunct to mammography in the diagnosis of patients with dense breasts".

We have temporarily discontinued discussions with other hospitals and clinics wishing to participate in our clinical collaboration program and plan to resume discussions if we secure the necessary funding to continue the program. We have been commercializing the CTLM® in many global markets and we previously announced our plans to set up this network to foster research and to promote the technology in local markets. We will continue to support similar programs outside of the United States if and when we are able to allocate funds for these programs. These investments have the potential to accelerate CTLM® market acceptance while providing valuable clinical experiences.

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International Distributors - Global Commercialization

The following table details the regulatory requirement and status of each country in which we have sold or marketed the CTLM®.

Country	Sold	Marketed	Regulatory Requirement	Regulatory Status
United States	No	No	Food & Drug Administration	Preparing for PMA Submission
Argentina	Yes	Yes	ANVISA	Expired(1)
Australia	No	Yes	TGA Approval	Canceled, Distributor Will Re-Submit(8)
Austria	No	Yes	CE Mark	Approved
Brazil	No	Yes	ANVISA	Expired(2)
Canada	No	Yes	Health Canada Approval	Approved
China	Yes	Yes	SFDA Approval	Approved
Croatia	No	Yes	CIHI(4)	Not Submitted Yet
Colombia	No	Yes	Register with MOH(3)	Not Submitted Yet
Curacao	No	Yes	MOH	Submitted by distributor-No Status(14)
Czech Republic	Yes	Yes	CE Mark	Approved
Egypt	No	Yes	CE Mark & Egypt MOH	Not Submitted Yet
Germany	No	Yes	CE Mark	Approved
Hong Kong	No	Yes	CE/SFDA	Not Submitted Yet
Hungary	Yes	Yes	CE Mark	Approved
India	Yes	Yes	CE Mark & BIS Certification	Not Required(9)
Indonesia	Yes	Yes	DirJen POM	Pending(12)
Israel	No	Yes	Import License	Approved
Italy	Yes	Yes	CE Mark	Approved
Jordan	No	Yes	JFDA(6)	Not Submitted Yet
Kazakhstan	No	Yes	Registration Cert. & GOSTR Cert.	Not Submitted Yet
Kuwait	No	Yes	MOH	Approved
Macedonia	No	Yes	CE Mark	Not Submitted Yet
Malaysia	Yes	Yes	BPFK	Not Required(10)
Mexico	Yes	Yes	MOH - COFERPRIS	Pending(11)
Montenegro	No	Yes	MOH	Not Submitted Yet
New Zealand	No	Yes	CE Mark	Not Submitted Yet
Oman	No	Yes	MOH	Not Submitted Yet
Philippines	No	Yes	BHDT(7)	Not Submitted Yet
Poland	Yes	Yes	CE Mark	Approved
Romania	Yes	Yes	CE Mark	Approved
Russia	No	Yes	ROSZDRAVNADZOR	Pending(13)
Saudi Arabia	No	Yes	CE Mark & MOH	Not Submitted Yet
Serbia	No	Yes	CE Mark	Approved
Slovenia	No	Yes	CE Mark	Approved
South Africa	No	Yes	CE Mark & DOH(4)	Not Submitted Yet
Turkey	Yes	Yes	CE Mark	Approved
Ukraine	No	Yes	CE Mark	Not Submitted Yet
United Arab Emirates	Yes	Yes	UAE/MOH	Approved
Vietnam	No	Yes	MOH	Not Submitted Yet

(1) Will be renewed upon appointment of new distributor.
(2) Distributor will renew ANVISA.
(3) MOH - Ministry of Health
(4) DOH - Department of Health
(5) CICI - The Croatian Institute for Health Insurance
(6) JFDA – Jordan Food and Drug Administration
(7) BHDT - Bureau of Health Devices and Technology
(8) TGA had requested additional documentation of our initial approval from our former distributor, which they did not provide timely. The initial approval was canceled and our new distributor will resubmit the application.
(9) CDSCO – Medical Device Division, Not required as this time but will be required for some classes of medical devices in 2011 or 2012.
(10) BPFK – Malaysia National Pharmaceutical Control Bureau, Registration is voluntary
(11) COFEPRIS – Mexico Ministry of Health
(12) DirJenPOM – We received a deposit from our distributor Jainsons Pty Ltd. and the system was installed in Jakarta, Indonesia. Our distributor is responsible for registering the CTLM® with the Indonesia Director General of Food and Drugs ("DirJen POM") who controls the registration of medical devices. Product registrations for medical devices issued from certain designated countries such as Canada can be used to support the registration in Indonesia with the DirJen POM. The CTLM® system has received international certifications and licenses from the European Union, CE mark; Canada, CMDCAS Canadian Health screening; China, SFDA; and ISO 13485 issued by UL.
(13) Our distributor, National Diagnostic Service and Management LLC (National) of Novi, Michigan, through its affiliate Phoenix Med of Moscow, Russia, has submitted an application to the Ministry of Health which is currently pending. The distributor has defaulted on its obligations stipulated in their distributor agreement and agreed to transfer the distributor agreement to their Moscow based affiliate. We are in the process of signing a new distributor agreement using the same or similar terms and conditions of the agreement with National. The new distributor would take over and continue the registration process with the Ministry of Health.
(14) Our distributor, Medical Care Systems, CA, filed an application with the Curacao Ministry of Health for a Women's Imaging Center in Curacao. The distributor defaulted on its obligations stipulated in their distributor agreement and we allowed the distributor agreement to expire.

We market our CTLM® system in the countries listed in the table above, where permitted. Product registration is not necessarily required to market our CTLM® in a particular country. Prior to processing a Purchase Order, we would contact either a regulatory service or the distributor in that particular country to determine what, if any, product registration is required.

We have never shipped nor would we ever ship a CTLM® system to any country without first obtaining the necessary regulatory approvals or product registration, if required. Any medical device that is shipped into a country without approval or registration would be quarantined in customs and the shipper would be advised that the device would be sent back to them. However, we are permitted to ship CTLM® systems for product demonstration or exhibition at trade shows without registering the product in that country.

In March 2009, we announced that we had redefined our marketing strategy and launched a new campaign focusing on the international market. Because of our disappointment with the performance of many of our previous distributors, we have terminated their distribution agreements for non-performance or allowed their agreements to expire. In April 2009, we were pleased to announce that we renewed our distribution agreement with EDO MED Sp. Z.o.o. as our exclusive distributor in Poland. EDO MED will continue to market and provide technical service support for the CTLM® throughout Poland, as well as to assist with and promote the ongoing research efforts utilizing CTLM® technology at the Comprehensive Cancer Centre in Gliwice, Poland and other institutes and research centers. As of the date of this report, EDO MED's distribution agreement has expired and we have not had negotiations to renew. The Clinical Collaboration program at the Comprehensive Cancer Centre, Maria Sklodowska-Curie Memorial Institute, in Gliwice has been temporarily discontinued due to our inability to fund the program.

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In the Asia-Pacific Region, we previously announced that we contracted with BAC, Inc. to manage our representative office in Beijing, existing distributors and develop new areas. As part of our continuing cost cutting initiatives, we closed our representative office in January 2009, and in December 2008, we terminated our contract with BAC, Inc. for non-performance. In March 2009, we announced the appointment of Jainsons Pty Ltd Company as our new distributor for Australia and New Zealand. In July 2010, we announced that we installed a CTLM® system at Tata Memorial Hospital, the national cancer comprehensive cancer center in Mumbai, India. The system was placed by Anto Puthiry, Managing Director of High-Tech Healthcare Equipments Pvt. Ltd.

In September 2007, we announced the installation of a CTLM® system at the Tianjin Medical University's Cancer Institute and Hospital ("Tianjin"), the largest breast disease center in China. The hospital evaluated the CTLM® under three research protocols designed to improve current methods of addressing breast cancer imaging and treatment follow-up. We previously announced that we installed a CTLM® system at Beijing's Friendship Hospital, which enabled CTLM® clinical procedures to become listed on the Regional and subsequently the National Schedule for patient payments.

In December 2008, we announced that a recent study of the CTLM® was one of the featured scientific abstracts at the Radiological Society of North America ("RSNA") from November 30th to December 5th. Dr. Jin Qi, a radiologist at the Tianjin Medical University Cancer Institute and Hospital, Tianjin, China was selected for her clinical paper, "CTLM as an Adjunct to Mammography in the Diagnosis of Patients with Dense Breasts." Dr. Qi attended RSNA with IDSI and was present at our exhibit. Dr. Qi's clinical paper was accepted as one of the European Congress of Radiology's conference presentations in March 2009. The study demonstrated that: "when the CTLM® system was used as an adjunct to mammography in heterogeneously and extremely dense breasts, the sensitivity (detecting cancer) increased significantly."

We previously signed an exclusive distributor in Malaysia, where interest in breast cancer detection and treatment was surging due to publicity surrounding their former First Lady, who succumbed to the disease. In September 2007, we announced the installation of a CTLM® system at the Univeriti Putra Malaysia ("UPM") in Kuala Lumpur, Malaysia. The CTLM® was installed at UPM's academic facility within the jurisdiction of the Ministry of Education and was evaluated by specialists from UPM in conjunction with specialists from Serdang Hospital in Kuala Lumpur. Following the evaluation at UPM, we appointed a new distributor, Daichi Holding Berhad ("Daichi") of Penasng, Malaysia. The CTLM® was removed from UPM academic facility at the conclusion of the evaluation period. Daichi issued a purchase order for this system and it was initially installed in August 2009 at Catherine Women's Medical Center in Petaling Jaya, Malaysia. On September 22, 2009, we announced that Daichi completed the purchase of the system with full payment. In June 2010, Daichi notified us that they were relocating the system and is now installed at the Breast Wellness (M) SDN. BHD (a public limited liability company) in Petaling Jaya, Malaysia.

Activities in Europe and the Middle East are top marketing priorities for IDSI. As a result of our participation as an exhibitor at the Arab Health Medical Conference in January 2010 in Dubai, UAE, and at the European Congress of Radiology ("ECR") in March 2010 in Vienna, Austria, we were able to meet with qualified distributors to discuss their interest in representing us in their respective territories. While attending Arab Health, we hired a Managing Director to market the CTLM® in the UAE and parts of the Middle East. We are not marketing or seeking distributors and will not market the CTLM® directly or indirectly in Iran, Sudan and/or Syria and other Middle Eastern countries that are subject to U.S. economic sanctions and export controls.

Additionally, we are negotiating with distributors in Egypt, Jordan, Saudi Arabia, India, Iraq, Lebanon, Turkey, Austria, and Belgrade. In April 2009, we signed a non-exclusive agreement with Neomedica d.o.o. Beograd to market the CTLM® system to the private and public sectors of Slovenia, Croatia, Serbia, Montenegro, and Macedonia. In October 2008, we announced that our distributor, Laszlo Meszaros of Kardia Hungary Kft. purchased the first CTLM® system for Budapest, Hungary. The CTLM® system has been installed at the new MeDoc HealthCare Center ("MDHC") located in Budapest, in collaboration with Dr. Maria Gergely, Chief Radiologist of Uzsoki Hospital.

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Our distributor, The Oyamo Group ("Oyamo") placed an order for the first CTLM® system for Israel in October 2008. Oyamo obtained the import license from The Israeli Ministry of Health for the CTLM® system and the system was installed in November 2010 at Sheba Medical Center at Tel Hashomer, which is outside of Tel Aviv. Oyamo advised that the hospital was unable to conduct clinical studies due to lack of available time on the part of the principal investigator. Although Oyamo is in technical default of their distributor agreement, they are seeking a new hospital for a clinical site for the CTLM®.

In December 2008, we announced that a new study evaluating the CTLM system as an adjunct to mammography was featured in the December 2008 issue of Academic Radiology. Alexander Poellinger, M.D., a radiologist at Charite Hospital in Berlin. Germany, authored "Near-infrared Laser Computed Tomography of the Breast: A Clinical Experience" along with colleagues at Charite and IDSI's Director of Advanced Development as co-author. Their work demonstrated an increase in accuracy of diagnosing malignant and benign breast lesions in patients who were examined with mammography and CTLM adjunctively compared to mammography alone. Dr. Poellinger's clinical paper was distributed to doctors and distributors visiting our booth at the European Congress of Radiology in March 2009.

In March 2010, we exhibited our CTLM® system and clinical results at the annual European Congress of Radiology (ECR 2010) held from March 4 -8, in Vienna, Austria. ECR 2010 attracted approximately 19,000 participants worldwide. ECR is one of the largest medical meetings in Europe and the second largest radiology meeting in the world and currently has 45,000 members.

In November 2010, we exhibited our CTLM® system with our Canadian distributor, Arc Diagnostic at the Health Achieve 2010 in Toronto, Canada. This exposition provided IDSI the opportunity to introduce and showcase the CTLM® system for the first time in Canada to prestigious hospitals, decision makers and Ministry of Health and business leaders in the area.

In November 2010, we exhibited our CTLM® system at the 96th RSNA show in Chicago, IL from November 28th to December 2nd.

In December 2010, we announced that we received a deposit for two CTLM® systems from our distributor, Jainsons Pty Ltd for India and Indonesia. The first CTLM® system was installed at a private imaging center in Ahmedabad, India on December 11, 2010. Jainsons was in default of their contract obligations and their distribution agreement was terminated on March 8, 2012. Jainsons refused to make the scheduled payments for a system in India and the account has been placed with an outside collection agency.

In January 2011, we exhibited the CTLM® at the Arab Health 2011 medical conference held from January 24 – 27 at the Dubai International Convention and Exhibition Centre in Dubai, United Arab Emirates (UAE). We presented clinical images obtained from the CTLM® system, identified potential distributors for the Middle East region and obtained prospective sales leads. The Arab Health Exhibition and Congress is one of the largest and most prestigious healthcare events in the Middle East, with over 2,700 exhibitors from 141 countries and more than 65,000 medical professionals.

In February 2011, we announced that we completed installation and applications training of a CTLM® system at the Hang Lekiu Medical Center in Jakarta, Indonesia. This was the second CTLM® system installed to complete the order from our distributor, Jainsons Pty Ltd, received in December 2010. Jainsons was in default of their contract obligations and their distribution agreement was terminated on March 8, 2012. After making the August 2011 and September 2011 scheduled payments, Jainsons refused to make any of the remaining scheduled payments for a system in Indonesia. The account has been placed with an outside collection agency.

On April 26, 2011, we announced that we have signed an exclusive distribution agreement with Kepter Internacional ("Kepter") of Monterrey, Mexico to promote our CTLM® systems throughout Mexico. Kepter is headquartered in Monterrey, Mexico with operations in Central and South America. The company represents innovative technologies nationally and internationally providing solutions for various aspects of the healthcare industry and infectious

control. Kepter's strategy is to offer environmental friendly and cost effective alternatives to conventional operations in the healthcare and commercial construction industry. Currently, Kepter's representatives are working closely with the Mexican Health Ministry to gain national acceptance for the CTLM® system; however, there can be no assurance that this acceptance will be obtained. Kepter International has formed a new company named "Sistemas de Diagnostico e Imagenologia de Mexico S.A. de C.V." to market the CTLM® in Mexico. We have completed the sale and installation of a CTLM® system in Monterrey, Mexico and the distributor has advised us that they are working on the sale of a second system but no timeline has been given for this sale.

In July 2011, we announced that we signed an exclusive distribution agreement with National Diagnostic Service and Management LLC ("NDSM") of Novi, Michigan and its affiliate Phoenix Med of Moscow, Russia to promote our CTLM® systems throughout Russia. NDSM and its partners distribute medical diagnostic and medical laser equipment and service support throughout Russia. As an independent distributor with over 15 years of experience within the Russian medical market and employing only product certified engineers, NDSM and Phoenix Med have a long established reputation within the women's health medical community. NDSM has initiated the medical device registration process required to import medical equipment into Russia. The distributor has defaulted on its obligations stipulated in their distributor agreement and agreed to transfer the distributor agreement to their Moscow based affiliate We are in the process of signing a new distributor agreement their affiliate using the same terms and conditions of the agreement with National. The new distributor would take over and continue the registration process with the Ministry of Health.

On August 2011, we announced that we would be exhibiting our CTLM® at the FIME 2011 medical trade fair conference to be held on August 10th to 12th in Miami Beach, FL. Dr. Jose Cisneros, our Director of Clinical Research was invited to present, "New Imaging Modalities for Breast Cancer" featuring our CTLM® system at the FIME conference.

In October 2011, we announced that the CTLM® purchase was confirmed after a successful rigorous evaluation of our CTLM® system at the Hang Lekiu Medical Center in Jakarta, Indonesia. This positive outcome reinforces DOT as a valuable new breast imaging modality. Hang Lekiu Medical Center is a leading provider of advanced multi-disciplined medical care in a modern patient friendly environment. The evaluation was initiated February 2011 by introducing the unique clinical benefits of CTLM® to Indonesia's Health Minister Endang Rahayu Sedyaningsih, local officials and key news organizations.

In November 2011, we announced that our exclusive distributor for Mexico, Kepter Internacional ("Kepter"), placed an order for five CTLM® systems with one system to be delivered and installed the third week of December 2011. In connection with the first system, Kepter paid a $45,000 deposit. Kepter advised us that they were unable to accept delivery in December so we shipped the system in January 2012. In August 2012, the CTLM® was installed at the Centro Medico Ave in Monterrey, Mexico. On September 12, 2012, Linda Grable Chairman/CEO and Deborah O'Brien, Senior Vice-President attended the official inauguration of the CTLM® installation at the Centro Medico Ave. The event was attended by the medical community, government officials and local community leaders. IDSI's exclusive distributor in Mexico, Kepter, has created a new company, "Sistemas de Diagnostico e Imagenologia de Mexico S.A. de C.V.", committed to establishing other CTLM® sites throughout Mexico. A video of the event can be viewed at http://vimeo.com/49416717.

In November 2011, we announced that we would be exhibiting our CTLM® at the 97th annual Radiological Society of North America (RSNA) Scientific Assembly meeting in Chicago, IL from November 27th to December 2nd. This meeting gave us the opportunity to present the CTLM® system which has been recently recognized as Diffuse Optical Tomography (DOT) to the national and international markets.

In December 2011, we announced that we signed an exclusive distribution agreement with ID Matrix Systems to market and sell our CTLM® systems to private and government hospitals and private imaging centers throughout China and Hong Kong. The agreement stipulates that ID Matrix must purchase a minimum of 15 CTLM® systems within the first year of the contract along with a 50% deposit with each order to remain our exclusive distributor for the territories. ID Matrix is in technical default of its distributor agreement.

In December 2011, we received an order for one CTLM® system with a deposit of $50,000 from our exclusive distributor, ID Matrix, which was initially scheduled to ship to China during the first week of January 2012. The distributor was not ready to take delivery so we will wait for their instructions for delivery. As of the date of this report we have not received any indication from the distributor that their customer is ready to receive and install the CTLM® system in their territory. We have no timeframe for delivery or if this sale will ever be completed.

In January 2012, we exhibited the CTLM® at the 37th annual Arab Health 2012 medical conference held from January 23 – 26 at the Dubai International Convention and Exhibition Centre in Dubai, United Arab Emirates (UAE). This meeting gave us the opportunity to present the CTLM® system which has been recently recognized as Diffuse Optical Tomography (DOT) to the Middle East markets. We presented clinical images obtained from the CTLM® system, identified potential distributors for the Middle East region and obtained prospective sales leads. The Arab Health Exhibition and Congress is the largest and most prestigious healthcare event in the Middle East, with over 3,000 exhibitors from 100 countries and more than 70,000 medical professionals.

In February 2012, we issued a press release titled, "Imaging Diagnostic Remains Committed to "DOT" & Shareholders" in which Linda Grable, Chairman and CEO of IDSI commented that: "After years of developing a truly unique and non-invasive breast imaging technology, we are pleased to be recognized as 'Diffuse Optical Tomography.' In addition, as possibly the first DOT breast imaging modality to seek FDA approval, we are completely dedicated to meeting all of the FDA requirements as quickly as possible. Dr. S. Ponder, Director of Advanced Development for IDSI states that: "We continue to be encouraged by our clinical study results. Especially, when dealing with heterogeneous and extremely dense breasts. We have been able to demonstrate that CTLM® increases detection sensitivity especially in Extremely Dense Breast (BIRADS classification), when compared to x-ray based mammography."

On May 14, 2012, we signed a distribution agreement with Shimadzu Medical to market the CTLM® in Australia, New Zealand and the Pacific Islands. Shimadzu Medical Systems (Oceania) Pty Ltd is an Australasian subsidiary of Shimadzu Corporation, Kyoto, Japan. Shimadzu is working towards resubmitting the required information for Therapeutic Goods Administration (TGA). TGA is Australia's regulatory agency for medical drugs and devices.

In May 2012, we announced the signing of a distribution agreement with Mareen Group Co., to market and sell its Computed Tomography Laser Mammography (CTLM(R)) System in Kuwait. Mareen Group Co., is a Medical & Pharmaceutical distribution company well established and based in Kuwait. They have been in operation since 1998, proudly providing various medical and healthcare institutions within Kuwait and the surrounding areas with advanced medical equipment and pharmaceuticals from across the globe. The philosophy of Mareen Group has always been to build close ties with their customers by supporting their every need with prompt professional service and support.

In July 2012, we announced the signing of a distribution agreement with Mareen Group Co., to market and sell its Computed Tomography Laser Mammography (CTLM®) System in Jordan.

In September 2012, we announced the installation of the first CTLM® system in Monterrey, Mexico at Centro Medico Ave through our exclusive distributor Sistemas de Diagnostico e Imagenologia de Mexico S.A. de C.V. Centro Medico Ave is a comprehensive state of the art medical center that offers first class facilities along with the finest and most distinguished physicians who are dedicated to diagnosing, treating and rehabilitating health. Its ongoing objective is to achieve excellence in every aspect of patient care.

In November 2012, we announced that we shipped a CTLM® system to the Euromedica Hospital in Baia Mare, Romania. This exciting event was possible through the joint efforts of the exclusive CTLM® distributor for Romania, Lebada USA, Inc. and the Romanian American Board of Trade. Euromedica Hospital, the first Romanian private Hospital accredited by CoNAS, the National Hospital Accreditation Committee, provides a wide range of care from outpatient medical consultations, laboratory tests, clinical investigations, hospitalization, surgery and post-surgery hospitalization. The hospital is equipped with the latest technical equipment for examinations and treatments.

Ovidius T. Lebada, CEO of Lebada USA, Inc., states, "The recent shipment to Euromedica Hospital is just one of several CTLM® systems planned for the Romanian market.

In December 2012, we announced that Clinical Imaging, a leading US based radiologist peer review journal, has reviewed and accepted a paper that evaluates the results of CTLM® and mammography when imaging dense breasts. Clinical Imaging provides widespread coverage of innovative technology, new applications, and important issues concerning all diagnostic imaging techniques. The paper's author, Dr. Jin Qi remarks, "Our data indicated that the imaging of CTLM® was least affected by tissue density in breasts and provides information about angiogenesis in breast lesions, especially in malignant lesions, when used as an adjunct to mammography in heterogeneously dense breasts and extremely dense breasts, sensitivity increased significantly."

On May 14, 2014, we announced that we have received approval from the Ministry of Health in Kuwait to market and sell our CTLM® in that country. Mareen Group Co. is the exclusive distributor of CTLM® in Kuwait.

Among our global users, we have three systems in Poland, two in Italy, two in the Czech Republic, two systems in the United Arab Emirates, two systems in India, and two systems in China as well as one system each in Germany, Hungary, Malaysia, Israel, Indonesia, Brazil, Mexico and Romania. As of the date of this report, IDSI's users have performed over 25,000 CT Laser Mammography (CTLM®) patient scans worldwide.

OTHER RECENT EVENTS

On May 1, 2013, our Board of Directors appointed Elizabeth J. Shotmeyer to serve on our Board. Ms. Shotmeyer, prior to her appointment as a Director, had loaned the Company a principal amount of $91,950. At the time these loans were made Ms. Shotmeyer was deemed an unaffiliated third party investor. Immediately upon her appointment she became an affiliated party. The appointment of Ms. Shotmeyer will fill one vacancy on our Board of Directors. Ms. Shotmeyer was appointed to the Compensation Committee. Ms. Shotmeyer has held executive positions in the oil, gas, and real estate sectors for over 40 years, from 1964-2004. She has held several roles such as Director and Vice President at United States Oil Corporation and related companies, located in New Jersey. She has owned and operated oil tank farms in New York, Delaware and Virginia. Ms. Shotmeyer is currently the owner of Shotmeyer Enterprises LLC and Big Shot Communications located in Florida. She has served on various boards from 1989-1993, including but not limited to the Board of Directors for Children's Museum of Boca Raton. In 1972, Ms. Shotmeyer earned her B.A. in English (Pre Law) from University of La Verne, Pomona, CA. Ms. Shotmeyer witnessed her mother's struggle with breast cancer, a devastating battle that resulted in her mother's demise. As a result, she is a firm believer of innovative methods of early detection. Ms. Shotmeyer is appointed to serve as a director until our 2013 annual meeting of shareholders or until her earlier resignation or removal.

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LASER IMAGER FOR LAB ANIMALS

Our Laser Imager for Lab Animals "LILA™" program is an optical helical micro-CT scanner in a third-generation configuration. The system was designed to image numerous compounds, especially green fluorescent protein, derived from the DNA of jellyfish. The LILA scanner is targeted at pharmaceutical developers and researchers who monitor cancer growth and who use multimodality small animal imaging in their clinical research.

IDSI's strategic thrust for the LILA project has changed, as we decided to focus on women's health business markets with a family of CTLM® systems and related devices and services. The animal imager did not fit our business model although the fundamental technology is related to the human breast imager. Consequently, we sought to align the project with a company already in the animal imaging market that might complete the LILA and commercialize it.

On August 30, 2006 we announced an exclusive license agreement under which Bioscan, Inc. would integrate LILA technology into their animal imaging portfolio. Under the agreement we would transfer technology to Bioscan by December 2006 upon receipt of the technology transfer fee. We have received full payment of $250,000 for the technology transfer fee and $69,000 for the parts associated with the agreement. The agreement also provides for royalties on future sales. Bioscan has commenced its work on the LILA project and placed one of their engineers at our facility so that he can confer with our engineers if necessary. Bioscan pays us for use of the space and consulting fees if they require our engineering assistance. There can be no assurance that it will be successful or that we will receive any royalties from Bioscan.

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Financing/Equity Line of Credit

We will require substantial additional funds for working capital, including operating expenses, clinical testing, regulatory processes and manufacturing and marketing programs and our continuing product development programs. Our capital requirements will depend on numerous factors, including the progress of our product development programs, results of pre-clinical and clinical testing, the time and cost involved in obtaining regulatory approvals, the cost of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights, competing technological and market developments and changes in our existing research, licensing and other relationships and the terms of any new collaborative, licensing and other arrangements that we may establish. Moreover, our fixed commitments, including salaries and fees for current employees and consultants, and other contractual agreements are likely to increase as additional agreements are entered into and additional personnel are retained.

From July 2000 until August 2007, when we entered into an agreement for the sale/lease-back of our headquarters facility, Charlton Avenue LLC ("Charlton") provided all of our necessary funding through the private placement sale of convertible preferred stock with a 9% dividend and common stock through various private equity credit agreements. See "Item 2, Results of Operations, Liquidity and Capital Resources, Sale/Lease-Back" We initially sold Charlton 400 shares of our Series K convertible preferred stock for $4 million and subsequently issued an additional 95 Series K shares to Charlton for $950,000 on November 7, 2000. We paid Spinneret Financial Systems Ltd. ("Spinneret"), an independent financial consulting firm unaffiliated with the Company and, according to Spinneret and Charlton, unaffiliated with Charlton, $200,000 as a consulting fee for the first tranche of Series K shares and five Series K shares as a consulting fee for the second tranche. The total of $4,950,000 was designed to serve as bridge financing pending draws on the Charlton private equity line provided through the various private equity credit agreements described in the following paragraphs.

From November 2000 to April 2001, Charlton converted 445 shares of Series K convertible preferred stock into 11,200 common shares and we redeemed 50 Series K shares for $550,000 using proceeds from the Charlton private equity line. Spinneret converted 5 Series K shares for $63,996. All Series K convertible preferred stock has been converted or redeemed and there are no convertible preferred shares outstanding.

Prior Equity Agreements

From August 2000 to February 2004, we obtained funding through three Private Equity Agreements with Charlton. Each equity agreement provided that the timing and amounts of the purchase by the investor were at our sole discretion. The purchase price of the shares of common stock was set at 91% of the market price. The market price, as defined in each agreement, was the average of the three lowest closing bid prices of the common stock over the ten day trading period beginning on the put date and ending on the trading day prior to the relevant closing date of the particular tranche. The only fee associated with the private equity financing was a 5% consulting fee payable to Spinneret. In September 2001 Spinneret proposed to lower the consulting fee to 4% provided that we pay their consulting fees in advance. We reached an agreement to pay Spinneret in advance as requested and paid them $250,000 out of proceeds from a put.

From the date of our first put notice, January 25, 2001 to our last put notice, February 11, 2004, under our Third Private Equity Credit Agreement, we drew a total of $20,506,000 and issued 98,624 shares to Charlton. As each of the obligations under these prior agreements was satisfied, the agreements were terminated. The Third Private Equity Agreement was terminated on March 4, 2004 upon the effectiveness of our first Registration Statement for the Fourth Private Equity Credit Agreement.

On January 9, 2004, we and Charlton entered into a new "Fourth Private Equity Credit Agreement" which replaced our prior private equity agreements. The terms of the Fourth Private Equity Credit Agreement were more favorable to us than the terms of the prior Third Private Equity Credit Agreement. The new, more favorable terms were: (i) The put option price was 93% of the three lowest closing bid prices in the ten day trading period beginning on the put date and ending on the trading day prior to the relevant closing date of the particular tranche, while the prior Third Private Equity Credit Agreement provided for 91%, (ii) the commitment period was two years from the

effective date of a registration statement covering the Fourth Private Equity Credit Agreement shares, while the prior Third Private Equity Credit Agreement was for three years, (iii) the maximum commitment was $15,000,000, (iv) the minimum amount we were required to draw through the end of the commitment period was $1,000,000, while the prior Third Private Equity Credit Agreement minimum amount was $2,500,000, (v) the minimum stock price requirement was controlled by us as we had the option of setting a floor price for each put transaction (the previous minimum stock price in the Third Private Equity Credit Agreement was fixed at $.10), (vi) there were no fees associated with the Fourth Private Equity Credit Agreement; the prior private equity agreements required the payment of a 5% consulting fee to Spinneret, which was subsequently lowered to 4% by mutual agreement in September 2001, and (vii) the elimination of the requirement of a minimum average daily trading volume in dollars. The previous requirement in the Third Private Equity Credit Agreement was $20,000.

We made sales under the Fourth Private Equity Credit Agreement from time to time in order to raise working capital on an "as needed" basis. Under the Fourth Private Equity Credit Agreement we drew down $14,198,541 and issued 133,317 shares of common stock. We terminated use of the Fourth Private Equity Credit Agreement and instead began to rely on the Fifth Private Equity Credit Agreement (described below) upon the April 26, 2006, effectiveness of our S-1 Registration Statement filed March 23, 2006.

On March 21, 2006, we and Charlton entered into a new "Fifth Private Equity Credit Agreement" which has replaced our prior Fourth Private Equity Credit Agreement. The terms of the Fifth Private Equity Credit Agreement were similar to the terms of the prior Fourth Private Equity Credit Agreement. The new credit line's terms were (i) The put option price is 93% of the three lowest closing bid prices in the ten day trading period beginning on the put date and ending on the trading day prior to the relevant closing date of the particular tranche (the "Valuation Period"), (ii) the commitment period was two years from the effective date of a registration statement covering the Fifth Private Equity Credit Agreement shares, (iii) the maximum commitment was $15,000,000, (iv) the minimum amount we were required to draw through the end of the commitment period was $1,000,000, (v) the minimum stock price, also known as the floor price was computed as follows: In the event that, during a Valuation Period, the Bid Price on any Trading Day fell more than 18% below the closing trade price on the trading day immediately prior to the date of the Company's Put Notice (a "Low Bid Price"), for each such Trading Day the parties had no right and were under no obligation to purchase and sell one tenth of the Investment Amount specified in the Put Notice, and the Investment Amount accordingly would be deemed reduced by such amount. In the event that during a Valuation Period there existed a Low Bid Price for any three Trading Days—not necessarily consecutive—then the balance of each party's right and obligation to purchase and sell the Investment Amount under such Put Notice would terminate on such third Trading Day ("Termination Day"), and the Investment Amount would be adjusted to include only one-tenth of the initial Investment Amount for each Trading Day during the Valuation Period prior to the Termination Day that the Bid Price equaled or exceeded the Low Bid Price and (vi) there were no fees associated with the Fifth Private Equity Credit Agreement.

We made sales under the Fifth Private Equity Credit Agreement from time to time in order to raise working capital on an "as needed" basis. Prior to the expiration of the Fifth Private Equity Credit Agreement on March 21, 2008, we drew down $5,967,717 and issued 165,412 shares of common stock.

The Sixth Private Equity Credit Agreement

On April 21, 2008, we and Charlton entered into a new "Sixth Private Equity Credit Agreement" which has replaced our prior Fifth Private Equity Credit Agreement. The terms of the Sixth Private Equity Credit Agreement are similar to the terms of the prior Fifth Private Equity Credit Agreement. This new credit line's terms are (i) The put option price is 93% of the three lowest closing bid prices in the ten day trading period beginning on the put date and ending on the trading day prior to the relevant closing date of the particular tranche (the "Valuation Period"), (ii) the commitment period is three years from the effective date of a registration statement covering the Sixth Private Equity Credit Agreement shares, (iii) the maximum commitment is $15,000,000, (iv) There is no minimum commitment amount, (v) the minimum stock price, also known as the floor price is computed as follows: In the event that, during a Valuation Period, the Bid Price on any Trading Day falls more than 20% below the closing trade price on the trading day immediately prior to the date of the Company's Put Notice (a "Low Bid Price"), for each such Trading Day the parties shall have no right and shall be under no obligation

to purchase and sell one tenth of the Investment Amount specified in the Put Notice, and the Investment Amount shall accordingly be deemed reduced by such amount. In the event that during a Valuation Period there exists a Low Bid Price for any three Trading Days—not necessarily consecutive—then the balance of each party's right and obligation to purchase and sell the Investment Amount under such Put Notice shall terminate on such third Trading Day ("Termination Day"), and the Investment Amount shall be adjusted to include only one-tenth of the initial Investment Amount for each Trading Day during the Valuation Period prior to the Termination Day that the Bid Price equals or exceeds the Low Bid Price and (vi) there are no fees associated with the Sixth Private Equity Credit Agreement. The conditions to our ability to draw under this private equity line, as described above, may materially limit the draws available to us.

Under the Sixth Private Equity Credit Agreement we have drawn down $2,042,392 and issued 454,000 shares of common stock. On November 23, 2009, we terminated our Sixth Private Equity Credit Agreement in connection with the execution of our Private Equity Credit Agreement with Southridge, which was amended on January 7, 2010.

As of the date of this report, since January 2001, we have drawn an aggregate of $42,714,650 in gross proceeds from our equity credit lines with Charlton and have issued 851,352 shares as a result of those draws.

The Southridge Private Equity Credit Agreement

On November 23, 2009, we and Southridge entered into a new "Southridge Private Equity Credit Agreement" which has replaced our prior Sixth Private Equity Credit Agreement with Charlton. On January 7, 2010, we and Southridge amended the terms of the "Southridge Private Equity Credit Agreement" and revised the language to clarify that Southridge is irrevocably bound to accept our put notices subject to compliance with the explicit conditions of the Agreement.

The terms of the Southridge Private Equity Credit Agreement are similar to the terms of the prior Sixth Private Equity Credit Agreement with Charlton. This new credit line's terms are (i) The put option price is 93% of the three lowest closing bid prices in the ten day trading period beginning on the put date and ending on the trading day prior to the relevant closing date of the particular tranche (the "Valuation Period"), (ii) the commitment period is three years from the effective date of a registration statement covering the Southridge Private Equity Credit Agreement shares, (iii) the maximum commitment is $15,000,000, (iv) There is no minimum commitment amount, and (v) there are no fees associated with the Southridge Private Equity Credit Agreement. The conditions to our ability to draw under this private equity line, as described above, may materially limit the draws available to us.

We are obligated to prepare promptly, and file with the SEC within sixty (60) days of the execution of the Southridge Private Equity Credit Agreement, a Registration Statement with respect to not less than 100,000,000 of Registrable Securities, and, thereafter, use all diligent efforts to cause the Registration Statement relating to the Registrable Securities to become effective the earlier of (a) five (5) business days after notice from the Securities and Exchange Commission that the Registration Statement may be declared effective, or (b) one hundred eighty (180) days after the Subscription Date, and keep the Registration Statement effective at all times until the earliest of (i) the date that is one year after the completion of the last Closing Date under the Purchase Agreement, (ii) the date when the Investor may sell all Registrable Securities under Rule 144 without volume limitations, or (iii) the date the Investor no longer owns any of the Registrable Securities (collectively, the "Registration Period"), which Registration Statement (including any amendments or supplements, thereto and prospectuses contained therein) shall not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

We are further obligated to prepare and file with the SEC such amendments (including post-effective amendments) and supplements to the Registration Statement and the prospectus used in connection with the Registration Statement as may be necessary to keep the Registration Statement effective at all times during the Registration Period, and, during the Registration Period, and to comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities of the Company covered by the Registration Statement until the expiration of the Registration Period.

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On January 12, 2010, we filed a Registration Statement for 120,000,000 shares pursuant to the requirements of the Southridge Private Equity Credit Agreement. This Registration Statement was declared effective on February 25, 2010. On May 24, 2010 we filed a Post-Effective Amendment No. 1 to our Registration Statement to update our financial statements and related notes to the financial statements and business information for the quarter ending March 31, 2010. We reduced the amount of shares registered to 85,744,007 shares. This amended Registration Statement was declared effective on May 27, 2010.

As of the date of this report, we have drawn down $2,000,000 and issued 142,489 shares of common stock under the Private Equity Credit Agreement with Southridge, all pursuant to the Registration Statement declared effective in May 2010.

On December 21, 2010, we filed a new Registration Statement on Form S-1 covering 35,487,756 shares to be issued pursuant to the Southridge Private Equity Agreement. This Registration Statement, as amended, has not yet been declared effective. As of the date of this report, since January 2001, we have drawn an aggregate of $44,714,650 in gross proceeds from our equity credit lines with Charlton and Southridge and have issued 993,841 shares as a result of those draws.

Short-Term Loans

In November 2009, we borrowed a total of $237,500 from four private investors pursuant to short-term promissory notes. These notes were due and payable in the amount of principal plus 20% premium, so that the total amount due was $285,000. In addition, we issued to the investors 70 shares of restricted common stock for each $1 lent so that a total of 16,625,000 shares of stock were issued to the investors. The aggregate fair market value of the 16,625,000 shares of stock when issued was $465,500. $30,000 principal on one of the notes was sold to OTC Global Partners in September 2012. $10,000 premium on one of the notes was sold to WHC Capital LLC on March 22, 2013. As of March 31, 2013, we have repaid an aggregate principal and premium in the amount of $148,500 on these short-term notes and owe a balance of $196,300 of which $70,000 is the principal remaining. The original due date of December 21, 2009, was first extended to February 28, 2010, with a second extension to June 15, 2010, a third extension to September 30, 2010 and a fourth extension to October 31, 2010. Further extensions of the $100,000 note were made through June 30, 2012 for 3% additional premium per month. However, as of June 30, 2012, we are accruing this 3% additional premium per month but have not yet received an extension of maturity date and are in technical default of the note. We are negotiating with the lender to extend the maturity date. In connection with all of the extensions, a total of $89,800 of additional premium was accrued as of March 31, 2013.

In December 2009, we borrowed a total of $400,000 from a private investor pursuant to three short-term promissory notes. These notes were payable from March 10 through March 15, 2010 in the amount of principal plus 15% premium, so that the total amount due was $460,000. In addition, we issued to the investor 48,000 shares of restricted common stock as collateral. These shares are to be returned and cancelled upon payment of the notes. The original due date of March 15, 2010 was first extended to June 15, 2010, with a second extension to September 30, 2010 and a third extension to October 31, 2010. Further extensions of the notes were made through June 30, 2012 for 3% additional premium per month on each note. We have not yet received an extension of maturity date and are in technical default of the note. We are negotiating with the lender to extend the maturity date. In connection with these extensions a total of $284,420 of additional premium was accrued for the December 2009 notes as the date of this report. In April 2011, Southridge purchased a total of $200,000 in principal value of promissory notes from the private investor. All conversions before December 10, 2012, were adjusted to reflect a 1 for 500 reverse split effective that date. As of March 31, 2013, Southridge has converted $180,515 principal and $55,600 premium into 2,257,052 shares of which 41,493 shares of our common stock that was previously issued as collateral.

On December 12, 2012, the private investor sold $180,769 of a promissory note originally dated December 15, 2009 to ASC Recap. The terms of the original note remain the same except that the holder may elect at any time

to convert any part or all of the $180,769 into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date. We reserved 18,000,000 shares of our common stock in connection with this transaction.

On January 3, 2013, Magna Group, LLC ("Magna") purchased $100,000 principal of a Promissory Note dated December 10, 2009 from a private investor. A new Convertible Promissory Note was issued to Magna on January 3, 2013 with a maturity date of September 3, 2013. Interest will accrue at 12% per annum. Any amount on principal or interest that remains unpaid when due shall bear an interest rate of 22% from the due date until paid. Magna may elect at any time to convert any part or all of the $100,000 plus interest into shares of our common stock at an Initial Conversion Price equal to 45% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice. We reserved 50,000,000 shares of our common stock in connection with this transaction.

On January 18, 2013, Redwood Management LLC ("Redwood") purchased $100,000 principal of a $100,000 Promissory Note originally dated December 14, 2009 from a private investor. Redwood may elect at any time to convert any part or all of the $100,000 into shares of our common stock at an Initial Conversion Price equal to 45% of the lowest closing bid price during the 15 trading days immediately prior to the date of the conversion notice. We reserved 100,000,000 shares of our common stock in connection with this transaction.

On January 8, 2010, we borrowed a total of $600,000 from a private investor pursuant to two short-term promissory notes. These notes were payable April 6, 2010 in the amount of principal plus 15% premium, so that the total amount due was $690,000. In addition, we issued to the investor 62,727 shares of restricted common stock as collateral. These shares are to be returned and cancelled upon payment of the notes. The original due date of April 6, 2010 was first extended to June 15, 2010, with a second extension to September 30, 2010 and a third extension to October 31, 2010. Further extensions of the notes were made through July 31, 2011 for 3% additional premium per month on each note. In January 2011, Southridge purchased a total of $600,000 in principal value of promissory notes from the private investor. As of the date of this report, Southridge has fully converted $600,000 principal and $340,099 premium into 768,912 shares of our common stock of which 62,112 shares were collateral shares and 706,800 new shares were issued pursuant to Rule 144. Although we were in technical default of these two notes, the holder, Southridge elected to convert these notes into common shares. In connection with these prior extensions through June 30, 2012 and the accrual of the additional premiums through May 31, 2012, a total of $255,647 of additional premium was accrued for the January 2010 notes as of June 30, 2012.

On February 25, 2010, we borrowed $350,000 from a private investor pursuant to a short-term promissory note. We issued to the investor 35 shares of Series L Convertible Preferred Stock as collateral. This note had a maturity date of April 30, 2010; however, the investor gave us notice of conversion to the collateral shares on March 31, 2010. The Note was cancelled upon this conversion. The 35 shares of Series L Convertible Preferred Stock accrue dividends at an annual rate of 9% and are convertible into an aggregate of 16,587,690 shares of common stock (473,934 shares of common stock for each share of preferred stock). Pursuant to the Certificate of Designation, Rights and Preferences for the Series L Convertible Preferred Stock, we are obligated to reduce the conversion price and reserve additional shares for conversion if we sold or issued common shares below the price of $.0211 per share (the market price on the date of issuance of the Preferred Stock). In October 2010, we obtained a waiver from the private investor holding the 35 shares of Series L Convertible Preferred Stock in which the investor agreed to convert no more than the 16,587,690 common shares currently reserved as we do not have sufficient authorized common shares to reserve for further conversions pursuant to the Certificate of Designation, Rights and Preferences. The investor agreed to a conversion floor price of $.015, which required us to reserve an additional 13,491 common shares.

On January 6, 2011, the investor converted 15 shares of the Series L Convertible Preferred Stock into 20,000 shares of common stock. As of the date of this report, the investor holds 20 shares of the Series L Convertible Preferred Stock.

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On December 13, 2010, we borrowed a total of $60,000 from a private investor pursuant to a short-term promissory note. The note is payable on or before January 31, 2011. As consideration for this loan, we were obligated to pay back his principal, $26,400 in premium and issue 6,000 restricted shares of common stock upon the approval by our shareholders of an increase in authorized common stock at our annual meeting to be held on July 12, 2011. On September 9, 2011, we issued the 6,000 common shares pursuant to Rule 144. We received an extension of maturity date to December 31, 2012 for this note. On September 5, 2012, the private investor sold $40,000 principal of the note to SGI Group. On December 17, 2012, the private investor sold the balance of his note totaling $46,400 ($20,000 principal and $26,400 premium) to WHC Capital LLC.

In November and December 2010, we received a total of $145,000 from Southridge pursuant to three short-term promissory notes. All three notes provide for a redemption premium of 15% of the principal amount on or before March 31, 2011. Interest will accrue at 8% per annum until maturity. Southridge may elect at any time to convert any part or all of the $145,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.01 or (b) 90% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

In January 2011, we received a total of $157,000 from Southridge pursuant to three short-term promissory notes. All three notes provide for a redemption premium of 15% of the principal amount on or before May 31, 2011. Interest will accrue at 8% per annum until maturity. Southridge may elect at any time to convert any part or all of the $157,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.01 or (b) 90% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

In February 2011, we received a total of $115,000 from Southridge pursuant to two short-term promissory notes. Both notes provide for a redemption premium of 15% of the principal amount on or before May 31, 2011. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $115,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.01 or (b) 90% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

In March 2011, we received $60,000 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before May 31, 2011. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $60,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.01 or (b) 90% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

In April 2011, we received $165,000 from Southridge pursuant to two short-term promissory notes. The notes provide for a redemption premium of 15% of the principal amount on or before July 31, 2011. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $165,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.01 or (b) 90% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

In May 2011, we received $80,000 from Southridge pursuant to two short-term promissory notes. The notes provide for a redemption premium of 15% of the principal amount on or before July 31, 2011. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $80,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a

conversion price equal to the lesser of (a) $0.01 or (b) 90% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

In July 2011, we received $150,000 from Southridge pursuant to a short-term promissory note. The note provided for a redemption premium of 15% of the principal amount on or before December 31, 2011. We received an extension of maturity date to February 29, 2012 for these notes. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $150,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.01 or (b) 70% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

In August 2011, we received $82,500 from Southridge pursuant to two short-term promissory notes of which the principal on these notes was $100,000 and $7,500, respectively. The $100,000 note provided for a $25,000 original issue discount and both notes provided for a redemption premium of 15% of the principal amount on or before December 31, 2011. We received an extension of maturity date to February 23, 2013 for these notes. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $107,500 principal amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.01 or (b) 70% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. The $100,000 and the $7,500 note have been paid in full through the conversion to common stock pursuant to Rule 144.

In August 2011, we received $50,000 from OTC Global Partners, LLC pursuant to a short-term promissory note. The note provided for a redemption premium of 15% of the principal amount on or before March 1, 2012. Interest will accrue at 8% per annum until maturity above and beyond the premium. OTC Global Partners, LLC may elect at any time to convert any part or all of the $50,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.014 or (b) 65% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

In September 2011, we received $133,000 from Southridge pursuant to two short-term promissory notes of which the principal on these notes was $100,000 and $100,000, respectively. One of the $100,000 notes provided for a $33,000 original issue discount and the other $100,000 note provided a $34,000 original issue discount. The notes provided for a redemption premium of 15% of the principal amount on or before December 31, 2011. We received an extension of maturity date to December 31, 2012 for these notes. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $200,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.0075 or (b) 70% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. The $100,000 note has been paid in full through the conversion to common stock pursuant to Rule 144.

In October 2011, we received $67,000 from Southridge pursuant to a short-term promissory note of which the principal on the note was $100,000. The note provides for a $33,000 original issue discount. The note provided for a redemption premium of 15% of the principal amount on or before January 12, 2012. We received an extension of maturity date to December 31, 2012 for this note. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $100,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.0075 or (b) 70% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice.

In October 2011, we received $67,000 from Southridge pursuant to a short-term promissory note of which the principal on the note was $100,000. The note provides for a $33,000 original issue discount. The note provided for a redemption premium of 15% of the principal amount on or before January 26, 2012. We received an extension of

maturity date to December 31, 2012 for this note. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $100,000 Principal Amount of the Notes plus accrued interest into shares of our common stock at a conversion price equal to the lesser of (a) $0.005 or (b) 70% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In October 2011, we received $78,500 from Asher Enterprises pursuant to a short-term promissory note due on or before July 26, 2012. Interest will accrue at 8% per annum until maturity above and beyond the premium. Asher Enterprises may elect at any time after 180 days to convert any part or all of the $78,500 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 58% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

In November 2011, we received $20,000 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before December 31, 2012. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $20,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 62% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

On November 21, 2011, Southridge sold their May 12, 2011 $60,000 short-term promissory note to Panache Capital, LLC ("Panache"). The terms of the original note remain the same except that the maturity date is now November 21, 2012 and interest will accrue at 10% per annum until maturity above and beyond the premium.

In November 2011, we received $40,000 from Panache pursuant to a short-term promissory note. The note provides a maturity date of November 21, 2012. Interest will accrue at 10% per annum until maturity. Panache may elect at any time to convert any part or all of the $40,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 62% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In November 2011, we received $53,000 from Asher Enterprises pursuant to a short-term promissory note due on or before September 5, 2012. Interest will accrue at 8% per annum until maturity above and beyond the premium. Asher Enterprises may elect at any time after 180 days to convert any part or all of the $53,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 58% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. This note has been paid in full through the conversion to common stock pursuant to Rule 144.

In December 2011, we received $17,000 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before December 18, 2012. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $17,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 62% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In December 2011, we received $12,000 from an unaffiliated third party investor pursuant to a short-term promissory note. The note provided for a redemption premium of 15% of the principal amount on or before March 8, 2012. Interest will accrue at 10% per annum until maturity above and beyond the premium. On January 6, 2012, we amended a promissory note in the principal amount of $12,000 dated December 9, 2011 held by an unaffiliated third-party investor. The note provided for a redemption premium of 15% of the principal amount on or before March 8, 2012. Interest will accrue at 10% per annum until maturity above and beyond the premium. The

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amendment provided for the issuance of three (3) restricted shares of Series P Preferred Stock having a stated value of $5,000 per share. These shares, having a total value of $15,000, will be used as collateral for the note held by the investor. We received an extension of maturity to June 4, 2012 for this note. Thereafter, a late fee premium of 1% per month will be due if unpaid. We have not yet received an extension of maturity date and are in technical default of the note. We are negotiating with the lender to extend the maturity date.

In December 2011, we borrowed a total of $21,604 from a private investor pursuant to two short-term promissory notes. The notes provided for a 2% premium per month. One of the notes was payable on or before December 16, 2011 and the other on or before January 6, 2012. We received an extension of maturity date to June 30, 2012 for these notes for 3% additional premium per month on each note.

In January 2012, we received a total of $175,200 from an unaffiliated third party investor pursuant to five short-term promissory notes with a maturity date ranging from March 5, 2012 to March 20, 2012. The notes provided for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 10% per annum until maturity above and beyond the premium. We issued a total of 38 Series P Preferred Stock to the investor as collateral with a total stated value of $190,000. We received an extension of maturity to June 4, 2012 for these notes. Thereafter, a late fee premium of 1% per month will be due if unpaid. We have not yet received an extension of maturity date and are in technical default of the note. We are negotiating with the lender to extend the maturity date. On March 20, 2013, the private investor sold $57,600 Principal of his $57,600 note to Tangiers Investment Group LLC. The full sale of the note was for $75,969 ($57,600 Principal, $8,640 Premium, $4,032 Late Fee Premium and $5,697 Interest). On March 20, 2013, we entered into a new Promissory Note with Tangiers Capital for $75,969 in Principal with a maturity date of March 19, 2014. Interest will accrue at 15% per annum until maturity above and beyond the premium. The holder may elect at an Event of Default to convert any part or all of the $75,969 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In February 2012, we received a total of $42,000 from an unaffiliated third party investor pursuant to two short-term promissory notes with a maturity date ranging from April 13, 2012 to April 30, 2012. The notes provided for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 10% per annum until maturity above and beyond the premium. We issued a total of 9 Series P Preferred Stock to the investor as collateral with a total stated value of $45,000. We received an extension of maturity to June 4, 2012 for these notes. Thereafter, a late fee premium of 1% per month will be due if unpaid. We have not yet received an extension of maturity date and are in technical default of the note. We are negotiating with the lender to extend the maturity date.

On February 23, 2012, Southridge sold their $100,000 short-term promissory note to Panache Capital, LLC ("Panache") of which a balance of $70,000 principal was remaining after Southridge converted $30,000 principal in a debt to equity conversion on February 17, 2012. The terms of the original note remain the same except that the maturity date is now November 21, 2012 and interest will accrue at 10% per annum until maturity above and beyond the premium. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In February 2012, we received $25,000 from Panache pursuant to a short-term promissory note. The note provides a maturity date of February 28, 2013. Interest will accrue at 10% per annum until maturity. Panache may elect at any time to convert any part or all of the $25,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 55% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In March 2012, we received $30,000 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before March 18, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $30,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 62% of the average of the two lowest closing bid prices during the five trading days

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immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In April 2012, we received $11,000 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before December 31, 2012. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $11,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In April 2012, we received $2,500 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before April 25, 2013. Interest at any time an Event of Default to convert any part or all of the $2,500 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In May 2012, we received a total of $25,000 from an unaffiliated third party investor pursuant to a short-term promissory note with a maturity date of August 2, 2012. The note provides for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 10% per annum until maturity above and beyond the premium. We issued a total of 5 Series P Preferred Stock to the investor as collateral with a total stated value of $25,000. We have not yet received an extension of maturity date and are in technical default of the note. We are negotiating with the lender to extend the maturity date.

In May 2012, we received $8,000 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before May 14, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $8,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In May 2012, we received $13,000 from Linda Grable, our CEO and Chairman of the Board, pursuant to a short-term promissory note. Ms. Grable is deemed an affiliated party. The note provides for a redemption premium of 15% of the principal amount on or before May 21, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. Ms. Grable may elect at any time to convert any part or all of the $13,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In May 2012, we received $32,000 from a private investor pursuant to two short-term promissory notes with a maturity date ranging from May 17, 2013 to May 20, 2013. The notes provides for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $32,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice.

In June 2012, we received $6,672 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before June 17, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $6,672 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the two lowest closing bid prices during the five trading days

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immediately prior to the date of the conversion notice. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In June 2012, we received $14,000 from a private investor pursuant to two short-term promissory notes with a maturity date ranging from June 6, 2013 to June 20, 2013. The notes provides for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $14,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice.

In July 2012, we received $20,100 from a private investor pursuant to four short-term promissory notes with a maturity date ranging from July 9, 2013 to July 24, 2013. The notes provide for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $20,100 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice.

In August 2012, we received $25,000 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before December 31, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $25,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice. We reserved 50,000,000 shares of our common stock in connection with this loan. The note has been paid in full through the conversion to common stock pursuant to Rule 144.

In August 2012, we received $95,000 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 15% of the principal amount on or before December 31, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $95,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date. We reserved 400,000,000 shares of our common stock in connection with this loan.

On August 20, 2012, Southridge sold $70,000 of their original $100,000 short-term promissory note dated October 12, 2011 to Levin Consulting Group. The terms of the original note remain the same except that the holder may elect at any time to convert any part or all of the $70,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date.

In August 2012, we received $35,000 from Levin Consulting Group pursuant to a short-term promissory note with a maturity date of August 20, 2013. The note provides for a redemption premium of 15% of the principal amount on or before November 18, 2012; 20% on or before December 18, 2012; 25% on or before January 17, 2013; and 30% on or before February 16, 2013. Interest will accrue at 10% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $35,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date.

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On August 20, 2012, Southridge sold $30,000 of their original $100,000 short-term promissory note dated October 12, 2011 to SGI Group LLC ("SGI"). The terms of the original note remain the same except that the holder may elect at any time to convert any part or all of the $30,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date.

In August 2012, we received $15,000 from SGI pursuant to a short-term promissory note with a maturity date of August 20, 2013. The note provides for a redemption premium of 15% of the principal amount on or before November 18, 2012; 20% on or before December 18, 2012; 25% on or before January 17, 2013; and 30% on or before February 16, 2013. Interest will accrue at 10% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $15,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date.

In September 2012, we received $29,000 from Southridge pursuant to a short-term promissory note of which the principal on the note was $30,000. The note provides for a $1,000 original issue discount. The note provides for a redemption premium of 15% of the principal amount on or before December 31, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. Southridge may elect at any time to convert any part or all of the $30,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date. We reserved 150,000,000 shares of our common stock in connection with this loan.

In September 2012, we received $25,000 from Panache pursuant to a short-term promissory note of which the principal on the note was $30,000. The note provides for a $5,000 original issue discount. The note provides for a redemption premium of 15% of the principal amount on or before December 31, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. Panache may elect at any time to convert any part or all of the $30,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date. We reserved 200,000,000 shares of our common stock in connection with this loan.

In September 2012, we received $30,000 from Southridge pursuant to a short-term promissory note. The note provides for a redemption premium of 20% on or before December 17, 2012; 25% on or before March 17, 2013; and 30% on or before June 15, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $30,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date. We reserved 700,000,000 shares of our common stock in connection with this loan.

On September 26, 2012, a private investor sold $30,000 of its original $100,000 short-term promissory note dated November 23, 2009 to OTC Global Partners. The terms of the original note remain the same except that the new note provides for a new redemption premium of 15% of the principal amount on or before September 25, 2013.

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Interest will accrue at 8% per annum until maturity above and beyond the premium. OTC Global Partners may elect at any time to convert any part or all of the $30,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the Initial closing bid price, then the Purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date.

In October 2012, we received $20,000 from Panache pursuant to a short-term promissory note. The note provides a maturity date of September 28, 2013. Interest will accrue at 10% per annum until maturity. Any amount on principal or interest that remains unpaid when due, shall bear an interest rate of 22% from the due date until paid. Panache may elect at any time to convert any part or all of the $20,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the initial closing bid price, then the purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date.

In October 2012, we received $38,500 from FLUX Carbon Starter pursuant to a short-term promissory note. The note provides a maturity date of October 3, 2013. We received net proceeds of $33,250 after deductions of $3,500 for legal fees and $1,750 for a finder's fee. Interest will accrue at 10% per annum until maturity. FLUX Carbon Starter may elect at any time to convert any part or all of the $38,500 principal amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the initial closing bid price, then the purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date.

In October 2012, we received $27,000 from Southridge pursuant to a short-term promissory note of which the principal on the note was $40,000 and the maturity date of the note is March 31, 2013. The note provides for a $13,000 original issue discount. The note provides for a redemption premium of 20% on or before January 7, 2013; 25% on or before April 7, 2013; and 30% on or before July 15, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $40,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the initial closing bid price, then the purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date. We reserved 300,000,000 shares of our common stock in connection with this loan.

In October 2012, we received $1,000 from Southridge pursuant to a short-term promissory note. The note provides a maturity date of April 30, 2013. The note provides for a redemption premium of 20% on or before January 22, 2013; 25% on or before April 24, 2013; and 30% after April 24, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $40,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the initial closing bid price, then the purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date. We reserved 300,000,000 shares of our common stock in connection with this loan.

In November 2012, we received $6,250 from SGI Group pursuant to a short-term promissory note of which the principal on the note was $12,500 and the maturity date of the note is May 31, 2013. The note provides for a $6,250 original issue discount. The note provides for a redemption premium of 20% of the principal amount on or before February 10, 2013; 25% on or before May 11, 2013; and 30% after May 11, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $12,500 Principal Amount of the Note plus accrued interest into shares of our common stock at an

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Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the initial closing bid price, then the purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date. We reserved 125,000,000 shares of our common stock in connection with this loan.

In November 2012, we received $6,250 from Star City Capital pursuant to a short-term promissory note of which the principal on the note was $12,500 and the maturity date of the note is May 31, 2013. The note provides for a $6,250 original issue discount. The note provides for a redemption premium of 20% of the principal amount on or before February 10, 2013; 25% on or before May 11, 2013; and 30% after May 11, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $12,500 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the initial closing bid price, then the purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date. We reserved 125,000,000 shares of our common stock in connection with this loan.

In November 2012, we received $20,000 from Southridge pursuant to a short-term promissory note of which the principal on the note was $40,000 and the maturity date of the note is May 31, 2013. The note provides for a $20,000 original issue discount. The note provides for a redemption premium of 20% on or before March 27, 2013; 25% on or before June 25, 2013; and 30% after June 25, 2013. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $40,000 Principal Amount of the Note plus accrued interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice; provided that if the closing bid price for the common stock on the Clearing Date is lower than the initial closing bid price, then the purchase price shall be adjusted such that the discount shall be taken from the Closing Bid Price on the clearing date. We reserved 400,000,000 shares of our common stock in connection with this loan.

In December 2012, we received $3,000 from a private investor pursuant to two short-term promissory notes with a maturity date ranging from December 5, 2013 to December 9, 2013. The notes provide for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $3,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In December 2012, we received $20,000 from a private investor pursuant to a short-term promissory note with a maturity date of December 19, 2013. The notes provide for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $20,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In December 2012, we received $12,000 from an unaffiliated third party investor pursuant to a short-term promissory note with a maturity date of June 13, 2013. The note provides for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 10% per annum until maturity above and beyond the premium. We issued a total of 3 Series P Preferred Stock to the investor as collateral with a total stated value of $15,000.

In December 2012, we received $15,000 from WHC Capital, LLC pursuant to a short-term promissory note with a maturity date of October 6, 2013. Interest will accrue at 12% per annum until maturity above and beyond the premium. Any amount on principal or interest that remains unpaid when due, shall bear an interest rate of 22% from the due date until paid. The holder may elect at any time to convert any part or all of the $15,000

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Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In January 2013, we received $31,500 from Hanover Holdings I, LLC ("Hanover") pursuant to a short-term promissory note. The note provides a maturity date of September 3, 2013. Interest will accrue at 12% per annum. Any amount on principal or interest that remains unpaid when due, shall bear an interest rate of 22% from the due date until paid. Hanover may elect at any time to convert any part or all of the $31,500 plus interest into shares of our common stock at an Initial Conversion Price equal to 45% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice. We reserved 20,000,000 shares of our common stock in connection with this transaction.

On January 3, 2013, Magna Group, LLC ("Magna") purchased $100,000 principal of a Promissory Note dated December 10, 2009 from a private investor. A new Convertible Promissory Note was issued to Magna on January 3, 2013 with a maturity date of September 3, 2013. Interest will accrue at 12% per annum. Any amount on principal or interest that remains unpaid when due, shall bear an interest rate of 22% from the due date until paid. Magna may elect at any time to convert any part or all of the $100,000 plus interest into shares of our common stock at an Initial Conversion Price equal to 45% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice. We reserved 50,000,000 shares of our common stock in connection with this transaction.

In January 2013, we received $5,850 from a private investor pursuant to two short-term promissory notes with a maturity date ranging from January 3, 2014 to January 8, 2014. The notes provide for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $5,850 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In January 2013, we received $30,000 from Black Arch Opportunity Fund LP ("Black Arch") pursuant to a short-term promissory note. The note provides a maturity date of November 9, 2013. Interest will accrue at 12% per annum. Any amount on principal or interest that remains unpaid when due, shall bear an interest rate of 22% from the due date until paid. Black Arch may elect at any time to convert any part or all of the $30,000 plus interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice.

In January 2013, we received $25,000 from Redwood Management LLC ("Redwood") pursuant to a $125,000 short-term promissory note dated January 18, 2013. The terms of the note provide that the Redwood will pay $25,000 every 30 days from execution of the note until the entire $125,000 is paid in full. The note provides a maturity date of January 18, 2014. Interest will accrue at 12% per annum on the aggregate unconverted outstanding principal amount. Redwood may elect at any time to convert any part or all of the outstanding balance plus interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the fifteen trading days immediately prior to the date of the conversion notice. We reserved 100,000,000 shares of our common stock in connection with this transaction.

In January 2013, Redwood agreed to purchase five promissory notes held by a private investor totaling $365,688 of which $213,600 in principal and $123,752 in premium; $17,040 is cash redemption premium and $11,296 is interest. Redwood may elect at any time to convert any part or all of the outstanding balance plus interest into shares of our common stock at an Initial Conversion Price equal to 45% of the lowest closing bid price during the fifteen trading days immediately prior to the date of the conversion notice. We reserved 60,000,000 shares of our common stock in connection with this transaction.

In January 2013, we received $19,500 from Hanover Holdings I, LLC ("Hanover") pursuant to a short-term promissory note. The note provides a maturity date of January 23, 2014. Interest will accrue at 12% per annum. Any amount on principal or interest that remains unpaid when due, shall bear an interest rate of 22% from the due date until paid. Hanover may elect at any time to convert any part or all of the $19,500 plus interest into shares of our common stock at an Initial Conversion Price equal to 45% of the lowest closing bid price during the five trading days immediately prior to the date of the conversion notice. We reserved 12,500,000 shares of our common stock in connection with this transaction.

In January 2013, we received $15,000 from WHC Capital, LLC pursuant to a short-term promissory note with a maturity date of January 25, 2014. Interest will accrue at 12% per annum until maturity above and beyond the premium. Any amount on principal or interest that remains unpaid when due, shall bear an interest rate of 22% from the due date until paid. The holder may elect at any time to convert any part or all of the $15,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In February 2013, we received $7,000 from a private investor pursuant to a short-term promissory note with a maturity date of February 7, 2014. The note provides for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $7,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In February 2013, we received $25,000 from Redwood Management LLC ("Redwood") pursuant to a $125,000 short-term promissory note dated January 18, 2013. The terms of the note provide that the Redwood will pay $25,000 every 30 days from execution of the note until the entire $125,000 is paid in full. The note provides a maturity date of January 18, 2014. Interest will accrue at 12% per annum on the aggregate unconverted outstanding principal amount. Redwood may elect at any time to convert any part or all of the outstanding balance plus interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the fifteen trading days immediately prior to the date of the conversion notice.

In February 2013, we received $15,000 from WHC Capital, LLC pursuant to a short-term promissory note with a maturity date of January 25, 2014. Interest will accrue at 12% per annum until maturity above and beyond the premium. Any amount on principal or interest that remains unpaid when due, shall bear an interest rate of 22% from the due date until paid. The holder may elect at any time to convert any part or all of the $15,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In March 2013, we received $78,500 from Asher Enterprises pursuant to a short-term promissory note due on or before December 5, 2013. We received net proceeds of $75,000 after deductions of $2,500 for legal fees. Interest will accrue at 8% per annum until maturity above and beyond the premium. Asher Enterprises may elect at any time after 180 days to convert any part or all of the $78,500 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 58% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. We reserved 209,000,000 shares of our common stock in connection with this loan.

In March 2013, we received $30,000 from Tangiers Investment Group, LLC ("Tangiers") pursuant to a short-term promissory note due on or before December 5, 2013. We received net proceeds of $25,000 after deductions of $2,500 for legal fees and $2,500 for a consulting fee. Interest will accrue at 15% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $30,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

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In March 2013, we received $20,000 from JMJ Financial pursuant to a short-term promissory note with a maturity date of March 26, 2014. During the first 90 days of the loan period, interest will be 0%. Interest will accrue at 12% per annum after 90 days until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $20,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to the lower of $0.0016 or 60% of the average of the lowest closing bid price during the 25 trading days immediately prior to the date of the conversion notice. We reserved 500,000,000 shares of our common stock in connection with this loan.

In March 2013, we received $7,500 from Redwood Management LLC ("Redwood") pursuant to a $125,000 short-term promissory note dated January 18, 2013. The terms of the note provide that the Redwood will pay $25,000 every 30 days from execution of the note until the entire $125,000 is paid in full. The note provides a maturity date of January 18, 2014. Interest will accrue at 12% per annum on the aggregate unconverted outstanding principal amount. Redwood may elect at any time to convert any part or all of the outstanding balance plus interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the fifteen trading days immediately prior to the date of the conversion notice.

In April 2013, we received $8,000 from Linda Grable, our CEO and Chairman of the Board, pursuant to a short-term promissory note. Ms. Grable is deemed an affiliated party. The note provides for a redemption premium of 15% of the principal amount on or before March 31, 2014. Interest will accrue at 8% per annum until maturity above and beyond the premium. Ms. Grable may elect at any time to convert any part or all of the $8,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the two lowest closing bid prices during the five trading days immediately prior to the date of the conversion notice.

In April 2013, we received $10,000 from a private investor pursuant to a short-term promissory note with a maturity date of April 2, 2014. The note provides for a redemption premium of 15% of the principal amount upon maturity. Interest will accrue at 8% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $10,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In April 2013, we received $32,500 from Asher Enterprises pursuant to a short-term promissory note due on or before January 14, 2014. We received net proceeds of $30,000 after deductions of $2,500 for legal fees. Interest will accrue at 8% per annum until maturity above and beyond the premium. Asher Enterprises may elect at any time after 180 days to convert any part or all of the $32,500 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 58% of the average of the three lowest closing bid prices during the 10 trading days immediately prior to the date of the conversion notice. We reserved 2,662,000,000 shares of our common stock in connection with this loan.

On April 25, 2013, the private investor sold $16,000 Principal of his $16,000 note to Tangiers Investment Group LLC. The full sale of the note was for $21,916 ($16,000 Principal, $4,000 Premium and $1,916 Interest). On April 25, 2013, we entered into a new Promissory Note with Tangiers Capital for $21,916 in Principal with a maturity date of April 24, 2014. Interest will accrue at 15% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $21,916 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

On April 25, 2013, the private investor sold $11,648 Principal of his $22,000 note to Tangiers Investment Group LLC. The full sale of the note was for $18,084 ($11,648 Principal, $3,947 Premium and $2,489 Interest). On April 25, 2013, we entered into a new Promissory Note with Tangiers Capital for $18,084 in Principal with a maturity date of April 24, 2014. Interest will accrue at 15% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $18,084 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

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In April 2013, we received $20,000 from Tangiers Investment Group, LLC ("Tangiers") pursuant to a short-term promissory note due on or before April 24, 2014. We received net proceeds of $15,000 after deductions of $2,500 for legal fees and $2,500 for a consulting fee. Interest will accrue at 15% per annum until maturity above and beyond the premium. The holder may elect at any time to convert any part or all of the $20,000 Principal Amount of the Note plus accrued interest into shares of our common stock at a conversion price equal to 50% of the average of the lowest closing bid price during the ten trading days immediately prior to the date of the conversion notice.

In April 2013, we received $5,000 from Redwood Management LLC ("Redwood") pursuant to a $125,000 short-term promissory note dated January 18, 2013. The terms of the note provide that the Redwood will pay $25,000 every 30 days from execution of the note until the entire $125,000 is paid in full. The note provides a maturity date of January 18, 2014. Interest will accrue at 12% per annum on the aggregate unconverted outstanding principal amount. Redwood may elect at any time to convert any part or all of the outstanding balance plus interest into shares of our common stock at an Initial Conversion Price equal to 50% of the lowest closing bid price during the fifteen trading days immediately prior to the date of the conversion notice.

OID (Original Issue Discount) is included in debt discount and amortized ratably to interest expense over the term of the respective notes to which they relate.

Debt to Equity Conversions:

On May 11, 2011, Southridge executed a debt to equity conversion of a $80,000 short-term promissory note dated November 11, 2010 plus accrued interest of $3,174. We issued Southridge 22,180 common shares pursuant to Rule 144 based on an agreed exchange price of $3.75 per share. We canceled the $12,000 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On July 13, 2011, Southridge executed a debt to equity conversion of a $14,000 short-term promissory note dated December 16, 2010 plus accrued interest of $641. We issued Southridge 2,928 common shares pursuant to Rule 144 based on an agreed exchange price of $5 per share. We canceled the $2,100 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On July 13, 2011, Southridge executed a debt to equity conversion of a $51,000 short-term promissory note dated December 22, 2010 plus accrued interest of $2,269. We issued Southridge 10,654 common shares pursuant to Rule 144 based on an agreed exchange price of $5per share. We canceled the $7,650 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On July 21, 2011, Southridge executed a debt to equity conversion of a $55,000 short-term promissory note dated January 13, 2011 plus accrued interest of $2,278. We issued Southridge 11,456 common shares pursuant to Rule 144 based on an agreed exchange price of $5 per share. We canceled the $8,250 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On July 21, 2011, Southridge executed a debt to equity conversion of a $22,000 short-term promissory note dated January 19, 2011 plus accrued interest of $882. We issued Southridge 4,576 common shares pursuant to Rule 144 based on an agreed exchange price of $5 per share. We canceled the $3,300 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On August 24, 2011, Southridge executed a debt to equity conversion of a $80,000 short-term promissory note dated January 28, 2011 plus accrued interest of $3,647. We issued Southridge 16,729 common shares pursuant to Rule 144 based on an agreed exchange price of $5 per share. We canceled the $12,000 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On August 24, 2011, Southridge executed a partial debt to equity conversion of a $80,000 short-term promissory note dated February 7, 2011 in which they converted $20,000 principal plus accrued interest of $868. We issued Southridge 4,174 common shares pursuant to Rule 144 based on an agreed exchange price of $5 per share.

On September 27, 2011, Southridge executed a final debt to equity conversion of a $80,000 short-term promissory note dated February 7, 2011 in which they converted the remaining $60,000 principal plus accrued interest of $868. We issued Southridge 16,780 common shares pursuant to Rule 144 based on an agreed conversion price of $3.75 per share. We canceled the $12,000 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On September 27, 2011, Southridge executed a debt to equity conversion of a $35,000 short-term promissory note dated February 15, 2011 plus accrued interest of $1,688. We issued Southridge 9,783 common shares pursuant to Rule 144 based on an agreed conversion price of $3.75 per share. We canceled the $5,250 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On September 27, 2011, Southridge executed a debt to equity conversion of a $60,000 short-term promissory note dated March 31, 2011 plus accrued interest of $2,315. We issued Southridge 16,617 common shares pursuant to Rule 144 based on an agreed conversion price of $3.75 per share. We canceled the $9,000 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On September 28, 2011, we amended the terms of all debt agreements with Southridge Partners II, LP and agreed to amend the conversion terms of the Notes such that the principal portion of the Notes, plus accrued interest, shall be convertible into shares of our common stock at a conversion price per share equal to the lesser of (a) $3.75 or (b) ninety percent (90%) of the average of the three (3) lowest closing bid prices during the ten (10) trading days immediately prior to the date of the conversion notice.

On October 13, 2011, Southridge executed a debt to equity conversion of a $100,000 short-term promissory note dated April 14, 2011 plus accrued interest of $3,989. We issued Southridge 41,596 common shares pursuant to Rule 144 based on an agreed conversion price of $2.50 per share. We canceled the $15,000 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On November 3, 2011, Southridge executed a debt to equity conversion of a $65,000 short-term promissory note dated April 26, 2011 plus accrued interest of $2,721. We issued Southridge 27,088 common shares pursuant to Rule 144 based on an agreed conversion price of $2.50 per share. We canceled the $9,750 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On November 16, 2011, Southridge executed a debt to equity conversion of a $20,000 short-term promissory note dated May 6, 2011 plus accrued interest of $850. We issued Southridge 13,452 common shares pursuant to Rule 144 based on an agreed conversion price of $1.55 per share. We canceled the $3,000 in premium associated with this note because the note was fully converted into common stock and was not redeemed for cash.

On December 15, 2011, Panache executed a partial debt to equity conversion of a $60,000 short-term promissory note dated May 12, 2011 in which they converted $14,415 principal. We issued Panache 10,000 common shares pursuant to Rule 144 based on an agreed conversion price of $1.4415 per share.

On January 3, 2012, Panache executed a partial debt to equity conversion of a $60,000 short-term promissory note dated May 12, 2011 in which they converted $12,896 principal. We issued Panache 16,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.806 per share.

On January 10, 2012, Panache executed a partial debt to equity conversion of a $60,000 short-term promissory note dated May 12, 2011 in which they converted $12,896 principal. We issued Panache 16,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.806 per share.

On January 18, 2012, Panache executed a partial debt to equity conversion of a $60,000 short-term promissory note dated May 12, 2011 in which they converted $12,710 principal. We issued Panache 20,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.6355 per share.

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On January 27, 2012, Panache executed a debt to equity conversion of a $60,000 short-term promissory note dated May 12, 2011 in which they converted the final $7,083 in principal. We issued Panache 11,424 common shares pursuant to Rule 144 based on an agreed conversion price of $0.612 per share. We still owe Panache $3,139 in accrued interest associated with this note.

On January 23, 2012, Southridge executed a partial debt to equity conversion of a $150,000 short-term promissory note dated July 27, 2011 in which they converted $85,000 principal. We issued Southridge 132,781 common shares with a restrictive legend based on an agreed conversion price of $0.65 per share. The restrictive legend was removed on February 2, 2012 pursuant to Rule 144.

On January 27, 2012, Southridge executed a partial debt to equity conversion of a $150,000 short-term promissory note dated July 27, 2011 in which they converted $30,000 principal. We issued Southridge 48,387 common shares pursuant to Rule 144 based on an agreed conversion price of $0.60 per share.

On February 7, 2012, Southridge executed a partial debt to equity conversion of a $150,000 short-term promissory note dated July 27, 2011 in which they converted $18,500 principal and $6,411 interest. We issued Southridge 48,555 common shares pursuant to Rule 144 based on an agreed conversion price of $0.515 per share.

On February 10, 2012, Southridge executed a partial debt to equity conversion of a $150,000 short-term promissory note dated July 27, 2011 in which they converted $16,500 principal and $99 interest. We issued Southridge 34,544 common shares pursuant to Rule 144 based on an agreed conversion price of $0.48 per share.

On February 17, 2012, Southridge executed a partial debt to equity conversion of a $100,000 short-term promissory note dated August 25, 2011 in which they converted $30,000 principal and $3,858 interest. We issued Southridge 68,475 common shares on February 27, 2012 pursuant to Rule 144 based on an agreed conversion price of $0.495 per share.

On February 23, 2012, Southridge executed a debt to equity conversion of a $7,500 short-term promissory note dated August 23, 2011 in which they converted $7,500 principal and $289 interest. We issued Southridge 15,091 common shares pursuant to Rule 144 based on an agreed conversion price of $0.515 per share.

On February 28, 2012, Southridge executed a partial debt to equity conversion of a $100,000 short-term promissory note dated September 12, 2012 in which they converted $51,000 principal and $3,595 interest. We issued Southridge 121,456 restricted common shares pursuant to Rule 144 based on an agreed conversion price of $0.45 per share.

On March 5, 2012, OTC Global Partners executed a debt to equity conversion of a $50,000 short-term promissory note dated August 30, 2011 in which they converted $50,000 principal and $2,027 interest. We issued OTC Global Partners 145,530 common shares pursuant to Rule 144 based on an agreed conversion price of $0.3575 per share.

On April 13, 2012, Southridge executed a partial debt to equity conversion of a $100,000 short-term promissory note dated September 12, 2012 in which they converted $49,000 principal and $1,096 interest. We issued Southridge 247,387 restricted common shares on April 24, 2012 pursuant to Rule 144 based on an agreed conversion price of $0.205 per share.

On April 13, 2012, Southridge executed a partial debt to equity conversion of a $100,000 short-term promissory note dated September 28, 2012 in which they converted $4,000 principal and $4,340 interest. We issued Southridge 41,184 restricted common shares on April 24, 2012 pursuant to Rule 144 based on an agreed conversion price of $0.205 per share.

On May 1, 2012, Panache executed a partial debt to equity conversion of a $100,000 short-term promissory note dated August 25, 2011 in which they converted $9,765 principal. We issued Panache 42,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.2325 per share.

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On May 1, 2012, Asher executed a partial debt to equity conversion of a $78,500 short-term promissory note dated October 24, 2011 in which they converted $12,000 principal. We issued Asher 52,174 common shares pursuant to Rule 144 based on an agreed conversion price of $0.23 per share.

On May 2, 2012, Asher executed a partial debt to equity conversion of a $78,500 short-term promissory note dated October 24, 2011 in which they converted $15,000 principal. We issued Asher 88,235 common shares pursuant to Rule 144 based on an agreed conversion price of $0.17 per share.

On May 10, 2012, Asher executed a partial debt to equity conversion of a $78,500 short-term promissory note dated October 24, 2011 in which they converted $13,000 principal. We issued Asher 136,842 common shares pursuant to Rule 144 based on an agreed conversion price of $0.095 per share.

On May 10, 2012, Panache executed a partial debt to equity conversion of a $100,000 short-term promissory note dated August 25, 2011 in which they converted $7,440 principal. We issued Panache 60,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.124 per share.

On May 15, 2012, Panache executed a partial debt to equity conversion of a $100,000 short-term promissory note dated August 25, 2011 in which they converted $9,330 principal. We issued Panache 100,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0933 per share.

On May 21, 2012, Asher executed a partial debt to equity conversion of a $78,500 short-term promissory note dated October 24, 2011 in which they converted $18,500 principal. We issued Asher 205,556 common shares pursuant to Rule 144 based on an agreed conversion price of $0.09 per share.

On May 22, 2012, Panache executed a partial debt to equity conversion of a $100,000 short-term promissory note dated August 25, 2011 in which they converted $9,330 principal. We issued Panache 100,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.093 per share.

On May 29, 2012, Asher executed a partial debt to equity conversion of a $78,500 short-term promissory note dated October 24, 2011 in which they converted $12,000 principal. We issued Asher 133,333 common shares pursuant to Rule 144 based on an agreed conversion price of $0.09 per share.

On May 30, 2012, Panache executed a partial debt to equity conversion of a $100,000 short-term promissory note dated August 25, 2011 in which they converted $9,330 principal. We issued Panache 100,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.093 per share.

On June 4, 2012, Asher executed a partial debt to equity conversion of a $78,500 short-term promissory note dated October 24, 2011 in which they converted $8,000 principal and $3,140 in interest. We issued Asher 171,385 common shares pursuant to Rule 144 based on an agreed conversion price of $0.065 per share.

On June 5, 2012, Panache executed a partial debt to equity conversion of a $100,000 short-term promissory note dated August 25, 2011 in which they converted $9,920 principal. We issued Panache 160,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.062 per share.

On June 8, 2012, Asher executed a partial debt to equity conversion of a $53,000 short-term promissory note dated November 29, 2011 in which they converted $12,000 principal. We issued Asher 171,385 common shares pursuant to Rule 144 based on an agreed conversion price of $0.07 per share.

On June 12, 2012, Asher executed a partial debt to equity conversion of a $53,000 short-term promissory note dated November 29, 2011 in which they converted $14,000 principal. We issued Asher 200,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.07 per share.

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On June 15, 2012, Asher executed a partial debt to equity conversion of a $53,000 short-term promissory note dated November 29, 2011 in which they converted $13,000 principal. We issued Asher 136,842 common shares pursuant to Rule 144 based on an agreed conversion price of $0.095 per share.

On June 20, 2012, Asher executed a partial debt to equity conversion of a $53,000 short-term promissory note dated November 29, 2011 in which they converted $14,000 principal and $2,120 in interest. We issued Asher 189,647 common shares pursuant to Rule 144 based on an agreed conversion price of $0.085 per share.

On July 17, 2012, Ms. Grable, our CEO and Chairman of the Board, executed a full debt to equity conversion of a $13,000 short-term promissory note in which she converted $13,000 principal and $148 in interest. We issued Ms. Grable 87,654 restricted common shares pursuant to Rule 144 based on an agreed conversion price of $0.15 per share. Ms. Grable is deemed an affiliated party.

On July 17, 2012, a private investor executed a partial debt to equity conversion of five of her notes in which she converted $19,583 principal into 200,000 restricted common shares pursuant to Rule 144 based on an agreed conversion price of $0.0885 per share.

On July 25, 2012, a private investor executed a full debt to equity conversion of a $3,000 short-term promissory note in which she converted $3,000 principal into 20,000 restricted common shares pursuant to Rule 144 based on an agreed conversion price of $0.15 per share.

On July 30, 2012, a private investor executed a partial debt to equity conversion of a $10,000 short-term promissory note in which she converted $6,900 principal into 46,000 restricted common shares pursuant to Rule 144 based on an agreed conversion price of $0.15 per share.

On August 7, 2012, a private investor sold their December 2011 short-term promissory notes totaling $21,604 in principal and $5,334 in premium to OTC Global Partners. A new short-term promissory note was issued to OTC Global Partners dated August 7, 2012 with a taking period back to December 7, 2011. OTC Global Partners may elect at an Event of Default to convert any part or all of the $21,604 Principal Amount of the Note plus accrued premium into shares of our common stock at a conversion price $0.16.

On August 7, 2012, OTC Global Partners executed a partial debt to equity conversion of the $21,604 short-term promissory note in which they converted $21,604 principal and $2,396 in premium. We issued OTC Global Partners 150,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.16 per share.

On September 5, 2012, Southridge executed a partial debt to equity conversion of a $100,000 short-term promissory note dated September 28, 2011 in which they converted $85,582 principal. We issued Southridge 760,727 common shares pursuant to Rule 144 based on an agreed conversion price of $0.115 per share.

On September 10, 2012, Levin Consulting Group executed a partial debt to equity conversion of the $70,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $20,000 principal. We issued Levin Consulting Group 160,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.125 per share. On September 21, 2012 we issued Levin Consulting Group an additional 240,000 shares because the closing bid price on the clearing date fell below the Initial closing bid price.

On September 10, 2012, Panache executed a partial debt to equity conversion of a $100,000 short-term promissory note dated August 25, 2011 in which they converted $14,885 principal. We issued Panache 160,054 common shares pursuant to Rule 144 based on an agreed conversion price of $0.093 per share.

On September 11, 2012, Southridge executed a final debt to equity conversion of a $100,000 short-term promissory note dated September 28, 2011 in which they converted $10,418 principal and $3,004 in interest. We issued Southridge 178,958 common shares pursuant to Rule 144 based on an agreed conversion price of $0.075 per share.

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On September 11, 2012, Southridge executed a partial debt to equity conversion of a $100,000 short-term promissory note dated October 26, 2011 in which they converted $32,500 principal and $7,036 in interest. We issued Southridge 527,142 common shares pursuant to Rule 144 based on an agreed conversion price of $0.075 per share.

On September 12, 2012, Southridge executed a partial debt to equity conversion of a $100,000 short-term promissory note dated October 26, 2011 in which they converted $4,150 principal. We issued Southridge 55,333 common shares pursuant to Rule 144 based on an agreed conversion price of $0.075 per share.

On September 12, 2012, Panache executed a partial debt to equity conversion of a $40,000 short-term promissory note dated November 21, 2011 in which they converted $23,250 principal. We issued Panache 250,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.093 per share.

On September 19, 2012, Panache executed a final debt to equity conversion of a $40,000 short-term promissory note dated November 21, 2011 in which they converted $16,750 principal and $3,244 in interest. We issued Panache 257,983 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0775 per share.

On September 20, 2012, Southridge executed a partial debt to equity conversion of a $100,000 short-term promissory note dated October 26, 2011 in which they converted $47,300 principal and $153 in interest. We issued Southridge 759,255 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0625 per share.

On September 27, 2012, OTC Global Partners executed a partial debt to equity conversion of the $30,000 short-term promissory note in which they converted $18,000 in principal. We issued OTC Global Partners 360,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.05 per share.

On September 28, 2012, Panache executed a partial debt to equity conversion of a $25,000 short-term promissory note dated February 28, 2012 in which they converted $13,200 principal. We issued Panache 240,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.055 per share.

On October 1, 2012, Southridge executed a final debt to equity conversion of a $100,000 short-term promissory note dated October 26, 2011 in which they converted $16,050 principal and $219 in interest. We issued Southridge 325,384 common shares pursuant to Rule 144 based on an agreed conversion price of $0.05 per share.

On October 1, 2012, Southridge executed a partial debt to equity conversion of a $20,000 short-term promissory note dated November 14, 2011 in which they converted $10,900 principal and $1,398 in interest. We issued Southridge 245,967 common shares pursuant to Rule 144 based on an agreed conversion price of $0.05 per share.

On October 2, 2012, Southridge executed a final debt to equity conversion of a $20,000 short-term promissory note dated November 14, 2011 in which they converted $9,100 principal and $18 in interest. We issued Southridge 182,351 common shares pursuant to Rule 144 based on an agreed conversion price of $0.05 per share.

On October 3, 2012, SGI Group executed a partial debt to equity conversion of the $30,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $9,000 principal and $106 in interest. We issued SGI Group 364,248 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On October 4, 2012, Panache executed a partial debt to equity conversion of a $25,000 short-term promissory note dated February 28, 2012 in which they converted $6,600 principal. We issued Panache 240,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0275 per share.

On October 10, 2012, FLUX Carbon Starter Fund executed a partial debt to equity conversion of a $38,500 short-term promissory note dated October 4, 2012 in which they converted $15,000 principal. We issued FLUX Carbon Starter 300,000 restricted common shares pursuant to Rule 144 based on an agreed conversion price of $0.05 per share.

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On October 11, 2012, OTC Global Partners executed a final debt to equity conversion of the $30,000 short-term promissory note in which they converted $18,000 in principal. We issued OTC Global Partners 240,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.05 per share.

On October 18, 2012, Southridge executed a partial debt to equity conversion of a $17,000 short-term promissory note dated December 19, 2011 in which they converted $15,900 principal and $1,125 in interest. We issued Southridge 681,010 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On October 23, 2012, Panache executed a final debt to equity conversion of a $25,000 short-term promissory note dated February 28, 2012 in which they converted $5,200 principal and $1,512 in interest. We issued Panache 244,061 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0275 per share.

On October 24, 2012, Levin Consulting Group executed a partial debt to equity conversion of the $70,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $12,200 principal and $214 in interest. We issued Levin Consulting Group 496,417 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On October 24, 2012, SGI Group executed a partial debt to equity conversion of the $30,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $5,100 principal and $88 in interest. We issued SGI Group 207,528 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On November 6, 2012, Southridge executed a final debt to equity conversion of a $17,000 short-term promissory note dated December 19, 2011 in which they converted $1,100 principal and $26 in interest. We issued Southridge 45,043 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On November 6, 2012, Southridge executed a debt to equity conversion of a $30,000 short-term promissory note dated March 19, 2012 in which they converted $30,000 principal and $1,433 in interest. We issued Southridge 1,257,337 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On November 6, 2012, Southridge executed a partial debt to equity conversion of an $11,000 short-term promissory note dated April 9, 2012 in which they converted $2,750 principal and $475 in interest. We issued Southridge 128,998 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On November 21, 2012, Southridge executed a final debt to equity conversion of an $11,000 short-term promissory note dated April 9, 2012 in which they converted $8,250 principal and $53 in interest. We issued Southridge 332,122 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On November 21, 2012, Southridge executed a debt to equity conversion of a $2,500 short-term promissory note dated April 26, 2012 in which they converted $2,500 principal and $111 in interest. We issued Southridge 1,104,427 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On November 21, 2012, Southridge executed a debt to equity conversion of an $8,000 short-term promissory note dated May 15, 2012 in which they converted $8,000 principal and $321 in interest. We issued Southridge 332,835 common shares pursuant to Rule 144 based on an agreed conversion price of $0.025 per share.

On December 18, 2012, Levin Consulting Group executed a partial debt to equity conversion of the $70,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $10,000 principal and $315 in interest. We issued Levin Consulting Group 1,085,800 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0095 per share. On January 10, 2013 we issued Levin Consulting Group an additional 633,383 shares because the closing bid price on the clearing date fell below the Initial closing bid price.

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On December 18, 2012, SGI Group executed a partial debt to equity conversion of the $30,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $10,000 principal and $315 in interest. We issued SGI Group 1,085,800 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0095 per share.

On December 21, 2012, WHC Capital LLC executed a partial debt to equity conversion of the $46,400 short-term promissory note originally dated December 10, 2010 and purchased on August 20, 2012 from a private investor, in which they converted $9,329 principal. We issued WHC Capital LLC 982,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0095 per share.

On January 8, 2013, ASC Recap executed a partial debt to equity conversion of the $180,769 balance of a short-term promissory originally dated December 15, 2009 and purchased on December 12, 2012 from a private investor, in which they converted $11,115 principal. We issued ASC Recap 1,852,500 common shares pursuant to Rule 144 based on an agreed conversion price of $0.006 per share.

On January 8, 2013, SGI Group executed a partial debt to equity conversion of the $30,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $5,900 principal and $4,400 in interest. We issued SGI Group 1,716,672 common shares pursuant to Rule 144 based on an agreed conversion price of $0.006 per share.

On January 10, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $10,000 principal. We issued Magna 1,554,002 common shares pursuant to Rule 144 based on an agreed conversion price of $0.006435 per share.

On January 15, 2013, WHC Capital LLC executed a partial debt to equity conversion of the $46,400 short-term promissory note originally dated December 10, 2010 and purchased on August 20, 2012 from a private investor, in which they converted $5,945 principal. We issued WHC Capital LLC 1,033,900 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00575 per share.

On January 18, 2013, ASC Recap executed a partial debt to equity conversion of the $180,769 balance of a short-term promissory originally dated December 15, 2009 and purchased on December 12, 2012 from a private investor, in which they converted $11,100 principal. We issued ASC Recap 1,850,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.006 per share.

On January 18, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $13,600 principal. We issued Magna 1,766,234 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0077 per share.

On January 23, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $12,500 principal. We issued Redwood 2,192,982 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0057 per share.

On January 28, 2013, WHC Capital LLC executed a partial debt to equity conversion of the $46,400 short-term promissory note originally dated December 10, 2010 and purchased on August 20, 2012 from a private investor, in which they converted $4,726 in principal and $5,019 in premium. We issued WHC Capital LLC 1,949,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.005 per share.

On January 28, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $9,900 principal. We issued Magna 1,766,234 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0055 per share.

On January 28, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $12,500 principal. We issued Redwood 2,272,727 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0055 per share.

On February 1, 2013, Levin Consulting Group executed a partial debt to equity conversion of the $70,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $7,000 principal and $248 in interest. We issued Levin Consulting Group 1,767,771 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0041 per share.

On February 1, 2013, SGI Group executed a partial debt to equity conversion of the $30,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $2,857 in interest. We issued SGI Group 696,878 common shares pursuant to Rule 144 based on an agreed conversion price of $0.006 per share. On February 11, 2013 we issued SGI Group an additional 446,002 shares because the closing bid price on the clearing date fell below the Initial closing bid price.

On February 6, 2013, Southridge executed a debt to equity conversion of a $6,672 short-term promissory note dated June 18, 2012 in which they converted $6,672 principal and $338 in interest. We issued Southridge 2,046,658 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00343 per share.

On February 6, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $6,500 principal. We issued Magna 4,166,667 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00156 per share.

On February 6, 2013, WHC Capital LLC executed a partial debt to equity conversion of the $46,400 short-term promissory note originally dated December 10, 2010 and purchased on August 20, 2012 from a private investor, in which they converted $5,843 in premium. We issued WHC Capital LLC 2,050,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00285 per share.

On February 6, 2013, ASC Recap executed a partial debt to equity conversion of the $180,769 balance of a short-term promissory originally dated December 15, 2009 and purchased on December 12, 2012 from a private investor, in which they converted $5,375 principal. We issued ASC Recap 1,628,788 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0033 per share.

On February 6, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $3,500 principal. We issued Redwood 2,121,212 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00165 per share.

On February 12, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $5,000 principal. We issued Redwood 3,030,303 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00165 per share.

On February 12, 2013, Southridge executed a partial debt to equity conversion of a $25,000 short-term promissory note dated August 2, 2012 in which they converted $7,475 principal and $1,058 in interest. We issued Southridge 4,162,212 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00205 per share.

On February 14, 2013, Southridge executed a partial debt to equity conversion of a $25,000 short-term promissory note dated August 2, 2012 in which they converted $2,185 principal and $11 in interest. We issued Southridge 1,626,636 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00135 per share.

On February 15, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $6,100 principal. We issued Magna 6,931,819 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00088 per share.

On February 18, 2013, Black Arch executed a partial debt to equity conversion of a $95,000 Promissory Note originally dated August 15, 2012 which they purchased $15,000 Principal from Southridge on February 11, 2013, in which they converted $7,500 principal. We issued Black Arch 5,555,556 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00135 per share.

On February 19, 2013, WHC Capital LLC executed a partial debt to equity conversion of the $46,400 short-term promissory note originally dated December 10, 2010 and purchased on August 20, 2012 from a private investor, in which they converted $4,083 in premium. We issued WHC Capital LLC 3,711,600 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0011 per share.

On February 20, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $3,400 principal. We issued Redwood 3,863,636 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00088 per share.

On February 20, 2013, a private investor executed a partial debt to equity conversion of a $95,000 Promissory Note originally dated August 15, 2012 which they purchased $5,000 Principal from Southridge on February 11, 2013, in which they converted $3,000 principal. We issued the private investor 2,736,273 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0011 per share.

On February 22, 2013, Southridge executed a partial debt to equity conversion of a $25,000 short-term promissory note dated August 2, 2012 in which they converted $6,325 principal and $49 in interest. We issued Southridge 5,794,832 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0011 per share.

On February 26, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $3,500 principal. We issued Redwood 3,977,272 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00088 per share.

On February 27, 2013, WHC Capital LLC executed a partial debt to equity conversion of the $46,400 short-term promissory note originally dated December 10, 2010 and purchased on August 20, 2012 from a private investor, in which they converted $10,800 in premium. We issued WHC Capital LLC 12,000,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0009 per share.

On March 5, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $3,950 principal. We issued Redwood 4,488,636 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00088 per share.

On March 5, 2013, Black Arch executed a final debt to equity conversion of a $95,000 Promissory Note originally dated August 15, 2012 which they purchased $15,000 Principal from Southridge on February 11, 2013, in which they converted $7,500 principal and $44 in interest. We issued Black Arch 8,382,648 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0009 per share. On March 21, 2013 we issued Black Arch Group an additional 3,224,096 shares because the closing bid price on the clearing date fell below the Initial closing bid price.

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On March 5, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $6,100 principal. We issued Magna 6,931,819 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00088 per share.

On March 5, 2013, Southridge executed a partial debt to equity conversion of a $25,000 short-term promissory note dated August 2, 2012 in which they converted $4,865 principal and $60 in interest. We issued Southridge 5,794,440 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00085 per share.

On March 7, 2013, a private investor executed a partial debt to equity conversion of a $95,000 Promissory Note originally dated August 15, 2012 which they purchased $5,000 Principal from Southridge on February 11, 2013, in which they converted $2,000 principal and $11 in interest. We issued the private investor 2,365,882 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00085 per share.

On March 13, 2013, Southridge executed a final debt to equity conversion of a $25,000 short-term promissory note dated August 2, 2012 in which they converted $4,150 principal. We issued Southridge 6,384,615 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00065 per share.

On March 13, 2013, Southridge executed a partial debt to equity conversion of a $30,000 short-term promissory note dated September 5, 2012 in which they converted $4,755 principal and $1,243 in interest. We issued Southridge 9,227,292 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00065 per share.

On March 13, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $4,620 principal. We issued Magna 7,000,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00066 per share.

On March 13, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $6,400 principal. We issued Redwood 8,311,688 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00077 per share.

On March 13, 2013, WHC Capital LLC executed a partial debt to equity conversion of the $46,400 short-term promissory note originally dated December 10, 2010 and purchased on August 20, 2012 from a private investor, in which they converted $656 premium and $643 in interest. We issued WHC Capital LLC 1,998,308 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00065 per share.

On March 14, 2013, SGI Group executed a partial debt to equity conversion of a $95,000 Promissory Note originally dated August 15, 2012 which they purchased $10,000 Principal from Southridge on February 11, 2013, in which they converted $6,700 principal and $70 in interest. We issued SGI Group 10,416,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00065 per share.

On March 14, 2013, Levin Consulting Group executed a partial debt to equity conversion of the $70,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $6,500 principal and $294 in interest. We issued Levin Consulting Group 10,452,215 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00065 per share.

On March 20, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $5,250 principal. We issued Redwood 8,750,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0006 per share.

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On March 20, 2013, Panache executed a partial debt to equity conversion of a $25,000 short-term promissory note dated September 6, 2012 in which they converted $3,900 principal. We issued Panache 6,500,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0006 per share.

On March 21, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $3,616 principal. We issued Tangiers 6,026,789 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0006 per share.

On March 22, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $5,005 principal. We issued Magna 7,000,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.000715 per share.

On March 27, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $7,049 principal. We issued Tangiers 12,817,145 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00055 per share.

On April 1, 2013, Southridge executed a partial debt to equity conversion of a $30,000 short-term promissory note dated September 5, 2012 in which they converted $14,990 principal and $66 in interest. We issued Southridge 23,163,689 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00065 per share.

On April 1, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $5,500 principal. We issued Redwood 9,166,667 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0006 per share.

On April 2, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $4,628 principal. We issued Tangiers 9,256,920 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0005 per share.

On April 4, 2013, WHC Capital LLC executed a partial debt to equity conversion of the $10,000 short-term promissory note originally dated November 20, 2009 and purchased on March 22, 2013 from a private investor, in which they converted $6,864 in premium. We issued WHC Capital LLC 17,160,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.004 per share.

On April 5, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $8,169 principal. We issued Tangiers 32,676,600 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0005 per share.

On April 5, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $2,600 principal. We issued Redwood 9,454,545 common shares pursuant to Rule 144 based on an agreed conversion price of $0.000275 per share.

On April 5, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $4,015 principal. We issued Magna 14,600,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.000275 per share.

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On April 8, 2013, Southridge executed a partial debt to equity conversion of a $30,000 short-term promissory note dated September 5, 2012 in which they converted $9,240 principal and $25 in interest. We issued Southridge 23,161,811 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0004 per share. On April 24, 2013 we issued Southridge an additional 13,897,087 shares because the closing bid price on the clearing date fell below the Initial closing bid price.

On April 9, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $4,380 principal. We issued Magna 19,909,091 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00022 per share.

On April 9, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $7,626 principal. We issued Tangiers 38,129,900 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0002 per share.

On April 15, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $7,577 principal. We issued Tangiers 50,513,800 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00015 per share.

On April 18, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $3,200 principal. We issued Redwood 29,090,909 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00011 per share.

On April 19, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $6,600 principal. We issued Magna 60,000,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00011 per share.

On April 19, 2013, Panache executed a partial debt to equity conversion of a $25,000 short-term promissory note dated September 6, 2012 in which they converted $5,920 principal. We issued Panache 59,200,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0006 per share.

On April 22, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $5,396 principal. We issued Tangiers 53,964,900 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0001 per share.

On April 23, 2013, Levin Consulting Group executed a partial debt to equity conversion of the $70,000 short-term promissory note originally dated October 12, 2011 and purchased on August 20, 2012 from Southridge, in which they converted $6,500 principal and $349 in interest. We issued Levin Consulting Group 68,493,200 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0001 per share.

On April 23, 2013, SGI Group executed a final debt to equity conversion of a $95,000 Promissory Note originally dated August 15, 2012 which they purchased $10,000 Principal from Southridge on February 11, 2013, in which they converted $3,300 principal and $85 in interest. We issued SGI Group 33,853,200 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0001 per share. On April 24, 2013 we issued SGI Group an additional 33,835,200 shares because the closing bid price on the clearing date fell below the Initial closing bid price.

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On April 23, 2013, SGI Group executed a partial debt to equity conversion of a $15,000 short-term promissory note dated August 20, 2012 in which they converted $3,250 principal and $220 in interest. We issued SGI Group 34,698,300 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0001 per share. On April 24, 2013 we issued SGI Group an additional 34,698,300 shares because the closing bid price on the clearing date fell below the Initial closing bid price.

On April 24, 2013, Southridge executed a final debt to equity conversion of a $30,000 short-term promissory note dated September 5, 2012 in which they converted $1,015 principal and $2 in interest. We issued Southridge 5,086,123 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0002 per share.

On April 24, 2013, Southridge executed a partial debt to equity conversion of a $30,000 short-term promissory note dated September 19, 2012 in which they converted $3,485 principal and $1,427 in interest. We issued Southridge 49,118,493 common shares pursuant to Rule 144 based on an agreed conversion price of $0.0001 per share.

On April 24, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $4,300 principal. We issued Redwood 39,090,909 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00011 per share.

On April 26, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $4,000 principal. We issued Tangiers 79,995,200 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00005 per share.

On April 29, 2013, Linda Grable, our CEO and Chairman of the Board, executed a debt to equity conversion of an $8,000 short-term promissory note dated April 1, 2013 in which she converted $8,000 principal. We issued Linda Grable 80,000,000 restricted common shares pursuant to Rule 144 based on an agreed conversion price of $0.0001 per share. Ms. Grable is deemed an affiliated party.

On April 30, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $6,600 principal. We issued Magna 120,000,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.000055 per share.

On April 30, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $5,485 principal. We issued Tangiers 109,696,200 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00005 per share.

On May 3, 2013, WHC Capital LLC executed a final debt to equity conversion of the $10,000 short-term promissory note originally dated November 20, 2009 and purchased on March 22, 2013 from a private investor, in which they converted $3,136 in premium and $56 in interest. We issued WHC Capital LLC 63,847,600 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00005 per share.

On May 6, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $6,633 principal. We issued Tangiers 132,663,600 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00005 per share.

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On May 8, 2013, Southridge executed a partial debt to equity conversion of a $30,000 short-term promissory note dated September 19, 2012 in which they converted $4,065 principal and $46 in interest. We issued Southridge 82,229,841 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00005 per share.

On May 9, 2013, Redwood executed a partial debt to equity conversion of a $100,000 Promissory Note originally dated December 14, 2009 which they purchased from a private investor on January 18, 2013, in which they converted $3,998 principal. We issued Redwood 79,960,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00005 per share.

On May 9, 2013, Magna executed a partial debt to equity conversion of the $100,000 Promissory Note originally dated December 10, 2009 which was issued as a new Convertible Promissory Note to Magna on January 3, 2013 in which they converted $11,000 principal. We issued Magna 200,000,000 common shares pursuant to Rule 144 based on an agreed conversion price of $0.000055 per share.

On May 10, 2013, Tangiers Capital LLC executed a partial debt to equity conversion of the $57,600 Promissory Note originally dated January 12, 2012 which was issued as a new $75,969 Convertible Promissory Note to Tangiers on March 20, 2013 in which they converted $9,221 principal. We issued Tangiers 184,425,800 common shares pursuant to Rule 144 based on an agreed conversion price of $0.00005 per share.

All debt conversions were consummated at the contractual terms agreed upon for each loan. Accordingly, there was no gain/loss on conversions.

From January 2011 to April 2011, Southridge acquired promissory notes from a private investor totaling $800,000 in principal and 110,728 shares of common stock which were issued as collateral. Southridge proposed that we amend the conversion terms of the notes permitting the holder to convert the notes and we agreed to the amendment. From January 12, 2011 to May 18, 2012, Southridge issued notices of conversion to settle $700,000 in principal plus accrued premiums totaling $395,699 into 810,406 shares of our common stock, of which 103,606 shares were collateral shares and 706,800 new shares were issued pursuant to Rule 144.

As of the date of this report, we owe a total of $1,760,386 of short term debt of which $1,129,436 is principal, $571,018 is accrued premium and $59,931 is accrued interest. We have repaid aggregate principal and premium in the amount of $173,376 on these short-term notes and a total of $2,964,632 principal, $450,830 in premium, and $91,701 in interest has been converted into 2,159,559,970 shares of our common stock of which 103,606 shares were collateral shares and 2,159,559,970 new shares were issued pursuant to Rule 144. Out of the original 103,606 shares of common stock held as collateral, a balance of 7,122 shares remains on the $85,985 principal of the remaining notes.

There can be no assurances that we will be able to pay our short-term loans when due. If we default on any or all of the notes due to the lack of new funding, the holders could exercise their right to sell the remaining 103,606 collateral shares and could take legal action to collect the amount due which could materially adversely affect IDSI and the value of our stock.

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Long-Term Loans

On February 23, 2011, we entered into a Convertible Promissory Note Agreement with an unaffiliated third party, JMJ Financial (the "Lender" or "JMJ"), relating to a private placement of a total of up to $1,800,000 in principal amount of a Convertible Promissory Note (the "Note") providing for advances of a gross amount of $1,600,000 in seven tranches. Pursuant to the terms of a Registration Rights Agreement (the "Rights Agreement") dated February 23, 2011, between the Company and JMJ, we are required to file within 10 days from the effective date of an increase of authorized shares approved by our shareholders, an S-1 Registration Statement (the "Registration Statement") covering 130,000,000 shares of Company common stock to be reserved for conversion of the Note.

Although our shareholders on July 12, 2011, voted to increase our authorized shares to 2,000,000,000, we have not filed the registration statement as required by the Rights Agreement.

The Note provides for funding in seven tranches as stipulated in the Funding Schedule attached. The first tranche of $300,000 was closed on February 24, 2011, and we received $258,000 after deductions of $30,000 for a 10% Finder's Fee and $12,000 for an Origination Fee. The second tranche of $100,000 closed on May 20, 2011, and we received $93,000 after deduction of $7,000 for a 7% Finder's Fee. A partial closing on the third tranche of $35,000 closed on October 7, 2011 and we received $32,250 after deduction of $2,750 for a 7% Finder's Fee. A partial closing on the third tranche of $25,000 closed on February 8, 2012 and we received $25,000. In connection with this partial third tranche we will pay a 7% Finder's Fee, which is $1,750. A partial closing on the third tranche of $25,000 closed on February 29, 2012 and we received $25,000. In connection with this partial third tranche we will pay a 7% Finder's Fee, which is $1,750. A final closing on the third tranche of $15,000 closed on April 4, 2012 and we received $15,000. In connection with this final third tranche we will pay a 7% Finder's Fee, which is $1,050. A partial closing on the fourth tranche of $10,000 closed on October 3, 2012 and we received $10,000. In connection with this partial fourth tranche we will pay a 7% Finder's Fee, which is $700. Although we are not being funded based on the on achievement of milestones relating to the Registration Statement, we continue to draw funds from the Promissory Note from time to time based on the lender's ability to fund us. For the remaining three tranches, we are obligated to pay a Finder's Fee equal to 7% in cash at each closing date. We may cancel the unfunded portion of the Agreement at a fee of 20% of the unfunded amount. As of the date of this report, $1,290,000 in principal amount remains unfunded and if we choose to cancel we will have to pay JMJ $258,000 to terminate the agreement.

The Note, after the seven tranches are drawn, would generate net proceeds of $1,467,000 after payment of the Origination Fee and a 7% Finder's Fee. JMJ has the option to provide an additional $1,600,000 of funding on substantially the same terms as the first Agreement; however, we have the right to cancel, without penalty, the Note Agreement within five days of JMJ's execution. Once executed and accepted by both parties and five days has passed, cancellation of unfunded payments is permitted at a fee of 20% of the unfunded amount. Cancellation of funded portions is not permitted.

The funding schedule of the seven tranches is as follows:

- $300,000 paid to Borrower within 2 business days of execution and closing of the agreement.
- $100,000 paid to Borrower within 5 business days of filing of Definitive Proxy to increase authorized shares to 2,000,000,000 or more.
- $100,000 paid to Borrower within 5 business days of effective increase in authorized shares to 2,000,000,000 or more.
- $100,000 paid to Borrower within 5 business days of filing of registration statement, and that registration statement must be filed no later than 10 days from the effective increase of authorized shares.

- $400,000 paid to Borrower within 5 business days of notice of effective registration statement, and that registration statement must be effective no later than 120 days from the execution of the agreement.

- $300,000 paid to Borrower within 90 business days of notice of effective registration statement, and that registration statement must be effective no later than 120 days from the execution of the agreement.

- $300,000 paid to Borrower within 150 business days of notice of effective registration statement, and that registration statement must be effective no later than 120 days from the execution of the agreement.

The conditions to funding each payment are as follows:

- At the time of each payment interval, the Conversion Price calculation on Borrower's common stock must yield a Conversion Price equal to or greater than $0.015 per share (based on the Conversion Price calculation, regardless of whether a conversion is actually completed or not).

- At the time of each payment interval, the total dollar trading volume of Borrower's common stock for the previous 23 trading days must be equal to or greater than $1,000,000. The total dollar volume will be calculated by removing the three highest dollar volume days and summing the dollar volume for the remaining 20 trading days.

- At the time of each payment interval, there shall not exist an event of default as described within any of the agreements between Borrower and Holder.

Prior to the maturity date of February 2, 2014, JMJ may convert both principal and interest into our common stock at 75% of the average of the three lowest closing prices in the 20 days previous to the conversion. We have the right to enforce a conversion floor of $0.015 per share; however, if we receive a conversion notice in which the Conversion Price is less than $0.015 per share, JMJ will incur a conversion loss [(Conversion Loss = $0.015 – Conversion Price) x number of shares being converted] which we must make whole by either of the following options: pay the conversion loss in cash or add the conversion loss to the balance of principal due. Prepayment of the Note is not permitted.

The Note has a 9% one-time interest charge on the principal sum. No interest or principal payments are required until the Maturity Date, but both principal and interest may be included in conversions prior to the maturity date.

On August 24, 2011, JMJ executed a debt to equity conversion of $36,015 in principal of the first tranche of $300,000 which we closed on February 24, 2011. We issued JMJ 7,000 common shares pursuant to Rule 144 based on a conversion price of $5.15 per share.

On August 31, 2011, JMJ executed a debt to equity conversion of $41,160 in principal of the first tranche of $300,000 which we closed on February 24, 2011. We issued JMJ 8,000 common shares pursuant to Rule 144 based on a conversion price of $5.15 per share.

On September 15, 2011, JMJ executed a debt to equity conversion of $37,597 in principal of the first tranche of $300,000 which we closed on February 24, 2011. We issued JMJ 8,200 common shares pursuant to Rule 144 based on a conversion price of $4.59 per share.

On September 28, 2011, JMJ executed a debt to equity conversion of $40,950 in principal of the first tranche of $300,000 which we closed on February 24, 2011. We issued JMJ 10,000 common shares pursuant to Rule 144 based on a conversion price of $4.10 per share.

On October 12, 2011, JMJ executed a debt to equity conversion of $36,750 in principal of the first tranche of $300,000 which we closed on February 24, 2011. We issued JMJ 10,000 common shares pursuant to Rule 144 based on a conversion price of $3.68 per share.

On December 15, 2011, JMJ executed a debt to equity conversion of $63,840 in principal of the first tranche of $300,000 which we closed on February 24, 2011. We issued JMJ 40,000 common shares pursuant to Rule 144 based on a conversion price of $1.60 per share.

On January 24, 2012, JMJ executed a debt to equity conversion totaling $44,100 of which $43,688 was principal and $412 was consideration for the first tranche of $300,000, which we closed on February 24, 2011. We issued JMJ 60,000 common shares pursuant to Rule 144 based on a conversion price of $0.74 per share.

On February 9, 2012, JMJ executed a debt to equity conversion totaling $44,100 of which $37,088 was consideration and $7,012 was interest for the first tranche of $300,000, which we closed on February 24, 2011. We issued JMJ 70,000 common shares pursuant to Rule 144 based on a conversion price of $0.63 per share.

On February 29, 2012, JMJ executed a debt to equity conversion totaling $39,550 of which $19,988 was interest for the first tranche of $300,000, which we closed on February 24, 2011 and $19,562 was principal for the second tranche of $100,000, which we closed on May 20, 2011. We issued JMJ 100,000 common shares pursuant to Rule 144 based on a conversion price of $0.40 per share.

On April 24, 2012, JMJ executed a debt to equity conversion of $29,120 in principal of the second tranche of $100,000 which we closed on May 20, 2012. We issued JMJ 104,000 common shares pursuant to Rule 144 based on a conversion price of $0.28 per share.

On May 9, 2012, JMJ executed a debt to equity conversion of $28,980 in principal of the second tranche of $100,000 which we closed on May 20, 2012. We issued JMJ 138,000 common shares pursuant to Rule 144 based on a conversion price of $0.21 per share.

On May 14, 2012, JMJ executed a debt to equity conversion of $4,389 in principal of the second tranche of $100,000 which we closed on May 20, 2011. We issued JMJ 38,000 common shares pursuant to Rule 144 based on a conversion price of $0.12 per share.

On May 24, 2012, JMJ executed a debt to equity conversion of $22,260 in principal of the second tranche of $100,000 which we closed on May 20, 2011. We issued JMJ 212,000 common shares pursuant to Rule 144 based on a conversion price of $0.11 per share.

On May 31, 2012, JMJ executed a debt to equity conversion of $2,940 in principal of the second tranche of $100,000 which we closed on May 20, 2011. We issued JMJ 28,000 common shares pursuant to Rule based on a conversion price of $0.11 per share.

On June 6, 2012, JMJ executed a debt to equity conversion totaling $19,551 of which $14,249 was interest for the second tranche of $100,000, which we closed on May 20, 2011 and $5,302 was principal for the third tranche of $35,000, which we closed on October 7, 2011. We issued JMJ 210,000 common shares pursuant to Rule 144 based on a conversion price of $0.093 per share.

On September 7, 2012, JMJ executed a debt to equity conversion of $19,572 in principal of the third tranche of $35,000, which we closed on October 7, 2011. We issued JMJ 240,000 common shares pursuant to Rule 144 based on a conversion price of $0.082 per share.

On October 3, 2012, JMJ executed a debt to equity conversion totaling $42,000 of which $14,501 was principal and $3,150 was interest for the third tranche of $35,000, which we closed on October 7, 2011; and $24,349 was principal of the fourth tranche of $25,000, which we closed on February 8, 2012. We issued JMJ 600,000 common shares pursuant to Rule 144 based on a conversion price of $0.07 per share.

On October 24, 2012, JMJ executed a debt to equity conversion totaling $10,500 of which $3,776 was principal and $2,250 was interest for the fourth tranche of $25,000, which we closed on February 8, 2012; and $4,474 was

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principal of the fifth tranche of $25,000, which we closed on February 29, 2012. We issued JMJ 300,000 common shares pursuant to Rule 144 based on a conversion price of $0.035 per share.

On January 16, 2013, JMJ executed a debt to equity conversion of $7,455 in principal of the fifth tranche of $25,000, which we closed on February 29, 2012. We issued JMJ 895,000 common shares pursuant to Rule 144 based on a conversion price of $0.00833 per share.

On January 29, 2013, JMJ executed a debt to equity conversion of $6,334 in principal of the fifth tranche of $25,000, which we closed on February 29, 2012. We issued JMJ 890,000 common shares pursuant to Rule 144 based on a conversion price of $0.007117 per share.

On February 11, 2013, JMJ executed a debt to equity conversion of $10,083 in principal of the fifth tranche of $25,000, which we closed on February 29, 2012. We issued JMJ 2,900,000 common shares pursuant to Rule 144 based on a conversion price of $0.003477 per share.

On February 20, 2013, JMJ executed a debt to equity conversion of $2,028 in principal of the fifth tranche of $25,000, which we closed on February 29, 2012; and $3,335 in principal of the sixth tranche of $15,000, which we closed on April 5, 2012. We issued JMJ 2,910,000 common shares pursuant to Rule 144 based on a conversion price of $0.001843 per share.

On February 27, 2013, JMJ executed a debt to equity conversion of $5,226 in principal of the sixth tranche of $15,000, which we closed on April 5, 2012. We issued JMJ 3,500,000 common shares pursuant to Rule 144 based on a conversion price of $0.001493 per share.

On March 5, 2013, JMJ executed a debt to equity conversion of $7,425 in principal of the sixth tranche of $15,000, which we closed on April 5, 2012. We issued JMJ 5,400,000 common shares pursuant to Rule 144 based on a conversion price of $0.001377 per share.

On March 5, 2013, JMJ executed a debt to equity conversion of $2,229 in principal and interest of the sixth tranche of $15,000, which we closed on April 5, 2012; and $5,625 was the balance owed of consideration on the principal from the prior six tranches. We issued JMJ 7,829,800 common shares pursuant to Rule 144 based on a conversion price of $0.001003 per share.

All debt conversions were consummated at the contractual terms agreed upon for each loan. Accordingly, there was no gain/loss on conversions.

As of the date of this report, we owe a total of $12,263 in long-term debt. Of the $12,263 we owe a total of $10,000 in principal, $1,250 is consideration on the principal and $1,013 is interest.

As of the date of this report, if all of the outstanding convertible promissory notes totaling $1,772,649 were converted based on the closing bid price of $0.0001, we would be required to issue approximately 25 billion shares. Based on the 2,124,402,540 current issued and outstanding shares and our current authorized of 10 billion shares, we would require an additional 17 billion authorized shares to satisfy the potential conversions.

There can be no assurance that adequate financing will be available to us when needed, or if available, will be available on acceptable terms. Insufficient funds may prevent us from implementing our business plan or may require us to delay, scale back, or eliminate certain of our research and product development programs or to license to third parties rights to commercialize products or technologies that we would otherwise seek to develop ourselves. To the extent that we utilize our Private Equity Credit Agreements, or additional funds are raised by issuing equity securities, especially convertible preferred stock and convertible debentures, dilution to existing shareholders will result and future investors may be granted rights superior to those of existing shareholders. Moreover, substantial dilution may result in a change in our control.

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ITEM 7. EXHIBITS

3.27	Articles of Amendment-Certificate of Designation of Series Q Preferred Stock filed with the Florida Department of State on March 16, 2012. Incorporated by reference to our Form 8-K filed on March 26, 2012.
10.78	Agreement of Sale by and between Imaging Diagnostic Systems, Inc. and Superfun B.V. dated September 13, 2007 including Form of Lease Agreement (Exhibit D). Incorporated by reference to our Form 8-K filed on September 13, 2007.
10.79	Lease Agreement by and between Bright Investments, LLC ("Landlord") and Imaging Diagnostic Systems, Inc. ("Tenant") dated March 14, 2008. Incorporated by reference to our Form 8-K filed on April 3, 2008.
10.80	Consulting Agreement between Imaging Diagnostic Systems, Inc. and Tim Hansen dated as of January 1, 2008. Incorporated by reference to our Form 8-K filed on December 27, 2007.
10.81	Sixth Private Equity Credit Agreement between IDSI and Charlton Avenue LLC dated April 21, 2008 without exhibits. Incorporated by reference to our Form 8-K filed on April 21, 2008.
10.82	Two-Year Employment Agreement dated as of April 16, 2008 between Imaging Diagnostic Systems, Inc. and Linda B. Grable, Chairman of the Board and Interim Chief Executive Officer. Incorporated by reference to our Form 8-K filed on May 5, 2008.
10.83	Stock Option Agreement dated as of August 30, 2007 between Imaging Diagnostic Systems, Inc. and Linda B. Grable, Chairman of the Board and Interim Chief Executive Officer. Incorporated by reference to our Form 8-K filed on May 5, 2008.
10.84	Business Lease Agreement by and between Ft. Lauderdale Business Plaza Associates ("Lessor") and Imaging Diagnostic Systems, Inc. ("Lessee") dated June 2, 2008. Incorporated by reference to our Form 8-K filed on June 5, 2008.
10.85	Financial Services Agreement by and between Imaging Diagnostic Systems, Inc. (the "Company" or "IDSI") and R.H. Barsom Company, Inc. (the "Consultant") dated July 15, 2008. Incorporated by reference to our Form 8-K filed on July 18, 2008.
10.86	Securities Purchase Agreement by and between Imaging Diagnostic Systems, Inc. (the "Company" or "IDSI") and Whalehaven Capital Fund Limited (the "Purchaser" and collectively, the "Purchasers") dated July 31, 2008. Incorporated by reference to our Form 8-K filed on August 5, 2008.
10.87	Form of 8% Senior Secured Convertible Debenture, Exhibit A. Incorporated by reference to our Form 8-K filed on August 5, 2008.
10.88	Registration Rights Agreement, Exhibit B. Incorporated by reference to our Form 8-K filed on August 5, 2008.
10.89	Common Stock Purchase Warrant, Exhibit C. Incorporated by reference to our Form 8-K filed on August 5, 2008.
10.90	Form of Legal Opinion, Exhibit D. Incorporated by reference to our Form 8-K filed on August 5, 2008.
10.91	Security Agreement, Exhibit E. Incorporated by reference to our Form 8-K filed on August 5, 2008.
10.92	Amendment Agreement by and between Imaging Diagnostic Systems, Inc. (the "Company" or "IDSI") and Whalehaven Capital Fund Limited (the "Purchaser" and collectively, the "Purchasers") dated October 23, 2008. Incorporated by reference to our Form 8-K filed on October 23, 2008.
10.93	Securities Purchase Agreement by and between Imaging Diagnostic Systems, Inc. (the "Company" or "IDSI") and Whalehaven Capital Fund Limited (the "Purchasers") dated November 20, 2008. Incorporated by reference to our Form 8-K filed on November 26, 2008.
10.94	Form of 8% Senior Secured Convertible Debenture, Exhibit A. Incorporated by reference to our Form 8-K filed on November 26, 2008.
10.95	Registration Rights Agreement, Exhibit B. Incorporated by reference to our Form 8-K filed on November 26, 2008.
10.96	Form of Legal Opinion, Exhibit D. Incorporated by reference to our Form 8-K filed on November 26, 2008.
10.97	Security Agreement, Exhibit E. Incorporated by reference to our Form 8-K filed on November 26, 2008.
10.98	Amendment Agreement by and among Imaging Diagnostic Systems, Inc., Whalehaven Capital Fund Limited, and Alpha Capital Anstalt dated as of December 10, 2008. Incorporated by reference to our Form 8-K filed on December 12, 2008.

10.99	Amendment Agreement by and among Imaging Diagnostic Systems, Inc., Whalehaven Capital Fund Limited, and Alpha Capital Anstalt dated as of December 31, 2008. Incorporated by reference to our Form 8-K filed on January 5, 2009.
10.100	Amendment Agreement (Revised) by and among Imaging Diagnostic Systems, Inc., Whalehaven Capital Fund Limited, and Alpha Capital Anstalt dated as of December 31, 2008. Incorporated by reference to our Form 8-K/A filed on January 7, 2009.
10.101	Amendment Agreement by and among Imaging Diagnostic Systems, Inc., Whalehaven Capital Fund Limited, and Alpha Capital Anstalt dated as of March 20, 2009. Incorporated by reference to our Form 8-K filed on March 26, 2009.
10.102	One-Year Employment and Stock Option Agreement dated March 23, 2009 between Imaging Diagnostic Systems, Inc. and Linda B. Grable, Chief Executive Officer. Incorporated by reference to our Form 8-K filed on March 27, 2009.
10.103	One-Year Employment and Stock Option Agreement dated March 23, 2009 between Imaging Diagnostic Systems, Inc. and Allan L. Schwartz, Executive Vice President and Chief Financial Officer. Incorporated by reference to our Form 8-K filed on March 27, 2009.
10.104	Private Equity Credit Agreement between Imaging Diagnostic Systems, Inc. and Southridge Partners II LP dated November 23, 2009. Incorporated by reference to our Form 8-K filed on November 25, 2009.
10.105	Registration Rights Agreement between Imaging Diagnostic Systems, Inc. and Southridge Partners II LP dated November 23, 2009. Incorporated by reference to our Form 8-K filed on November 25, 2009.
10.106	Private Equity Credit Agreement (Amended) between Imaging Diagnostic Systems, Inc. and Southridge Partners II LP dated January 7, 2010. Incorporated by reference to our Form S-1 filed on January 12, 2010.
10.107	Registration Rights Agreement (Amended) between Imaging Diagnostic Systems, Inc. and Southridge Partners II LP dated January 7, 2010. Incorporated by reference to our Form S-1 filed on January 12, 2010.
10.108	Employment Agreement and Stock Option Agreement dated March 22, 2010, between Imaging Diagnostic Systems, Inc. and Linda B. Grable, Chief Executive Officer. Incorporated by reference to our Form 8-K filed on March 25, 2010.
10.109	Employment Agreement and Stock Option Agreement dated March 22, 2010, between Imaging Diagnostic Systems, Inc. and Allan L. Schwartz, Executive Vice President and Chief Financial Officer. Incorporated by reference to our Form 8-K filed on March 25, 2010.
10.110	Employment Agreement and Stock Option Agreement dated March 22, 2010, between Imaging Diagnostic Systems, Inc. and Deborah O'Brien, Senior Vice-President. Incorporated by reference to our Form 8-K filed on March 25, 2010.
10.111	2010 Non-Statutory Stock Option Plan dated March 11, 2010. Incorporated by reference to our Form S-1 Amendment No. 1 filed on May 24, 2010.
10.112	Convertible Promissory Note by and between Imaging Diagnostic Systems, Inc. (the "Company" or "Borrower") and JMJ Financial (the "Lender or "JMJ") dated February 23, 2011, Exhibit A. Incorporated by reference to our Form 8-K/A filed on March 2, 2011.
10.113	Letter Addendum to Promissory Note dated February 23, 2011, Exhibit B. Incorporated by reference to our Form 8-K/A filed on March 2, 2011.
10.114	Registration Rights Agreement dated February 23, 2011, Exhibit C. Incorporated by reference to our Form 8-K/A filed on March 2, 2011.

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10.115	Patent Licensing Agreement, originally filed as Exhibit 10.2 to Form S-2 on July 21, 1998 as a text document. Incorporated by reference to our Form S-1 Amendment No. 2 filed on March 15, 2011.
10.116	U.S. Patent 5.692,511 issued Dec. 2, 1997, Exhibit A to Patent Licensing Agreement filed as Exhibit 10.115. Incorporated by reference to our Form S-1 Amendment No. 3 filed on April 26, 2011.
10.117	Employment Agreement and Stock Option Agreement dated December 8, 2011, between Imaging Diagnostic Systems, Inc. and Michael W. Addley, Chief Operating Officer. Incorporated by reference to our Form 8-K filed on December 9, 2010.
10.118	Preferred Stock Purchase Agreement dated March 21, 2012 by and between the Company and Linda B. Grable. Incorporated by reference to our Form 8-K filed on March 26, 2012.
31.1	Certification by Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

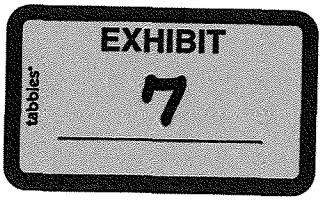
Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: May 15, 2013

Imaging Diagnostic Systems, Inc.

By: /s/ Linda B. Grable
Linda B. Grable
Chief Executive Officer

By: /s/ Allan L. Schwartz
Allan L. Schwartz, Executive Vice-President and Chief Financial Officer
(PRINCIPAL ACCOUNTING OFFICER)



UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

CASE NO.

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

IMAGING DIAGNOSTIC SYSTEMS, INC.,
LINDA GRABLE, and
ALLAN SCHWARTZ,

Defendants.
_____/

COMPLAINT FOR INJUNCTIVE AND OTHER RELIEF

Plaintiff Securities and Exchange Commission alleges as follows:

I. INTRODUCTION

1. Imaging Diagnostic Systems, Inc., its CEO Linda Grable, and its CFO Allan Schwartz, issued eight misleading public filings from October 2008 to December 2009 stating the company intended to file an application with the Food and Drug Administration ("FDA") by various deadlines to obtain permission to market and sell its medical device called the CTLM®. At the same time Grable and Schwartz had information showing Imaging would be unable to meet its publicly stated deadlines. Imaging failed to meet the deadlines stated in all eight public filings. Imaging did not file an application with the FDA until November 22, 2010, more than six months after the last April 2010 deadline it had disclosed in its filings.

2. Additionally, beginning with the quarter ended March 31, 2010, Imaging was experiencing severe financial problems and failed to remit payroll taxes for its employees to the Internal Revenue Service ("IRS"). Both Grable and Schwartz knew that Imaging had failed to remit payroll taxes. From the quarter ended March 31, 2010 through the quarter ended March

31, 2011, Imaging failed to disclose in public filings that it had not remitted payroll taxes. Finally, in its Form 10-Q filed on May 18, 2011, Imaging disclosed the company owed payroll taxes. But even then, it still failed to disclose the risks associated with its failure to remit payroll taxes. For example, it failed to disclose that the IRS could file a notice of federal tax lien, impose penalties and interest, and even seize the company's assets. It was not until November 29, 2011 in its Amended 10-K that it disclosed the risks associated with its decision.

3. Grable and Schwartz also failed to file beneficial ownership reports despite the fact that they received stock and options in 2009, 2010, and 2011.

4. By reason of the foregoing, Imaging, Grable, and Schwartz violated Section 17(a)(2) of the Securities Act of 1933 ("Securities Act"), Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Exchange Act Rule 10b-5; Imaging violated Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Exchange Act Rules 12b-20, 13a-1, and 13a-13; Grable and Schwartz violated Section 16(a) of the Exchange Act and Exchange Act Rules 13a-14, 13b2-1, and 16a-3; Imaging and Grable violated Section 14(a) of the Exchange Act and Exchange Act Rule 14a-9; and Schwartz and Grable aided and abetted Imaging's violations of Sections 10(b), 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Exchange Act Rules 10b-5, 12b-20, 13a-1, and 13a-13. As a result, the Commission respectfully requests declaratory relief, a permanent injunction, and civil penalties as to all the Defendants. Finally, the Commission respectfully requests officer-and-director and penny stock bars against Grable and Schwartz.

II. DEFENDANTS

5. **Imaging** is a Florida corporation with its principal place of business located in Fort Lauderdale, Florida. Imaging's securities are registered under Section 12(g) of the

Exchange Act and its common stock is dually quoted on the OTC Bulletin Board and OTC Link under the symbol "IMDS."

6. **Linda Grable** is a resident of Fort Lauderdale, Florida. During the relevant period, and to this day, she has served as the Chief Executive Officer and Chairman of the Board of Imaging. She also serves on the Audit, Compensation, and Corporate Governance Committees of the company's board.

7. **Allan Schwartz** is a resident of Boca Raton, Florida. During the relevant period, and to this day, he has served as the Executive Vice President, Chief Financial Officer, and Director of Imaging. He also serves on the Audit, Compensation, and Corporate Governance Committees of the company's board.

III. JURISDICTION AND VENUE

8. The Court has jurisdiction over this action pursuant to Sections 20(b), 20(d), and 22(a) of the Securities Act, 15 U.S.C. §§ 77t(b), 77t(d), and 77v(a); and Sections 21(d), 21(e), and 27 of the Exchange Act, 15 U.S.C. §§ 78u(d), 78u(e), and 78aa.

9. This Court has personal jurisdiction over the Defendants and venue is proper in the Southern District of Florida because, among other reasons, Imaging's principal place of business is in the Southern District of Florida. In addition, the Defendants' acts and transactions constituting violations of the Securities Act and Exchange Act occurred in the Southern District of Florida. Additionally, Grable resides in Fort Lauderdale, Florida, and Schwartz resides in Boca Raton, Florida.

10. The Defendants, directly and indirectly, made use of the means and instrumentalities of interstate commerce, and the mails, in connection with the acts, practices, and courses of business set forth in this Complaint.

IV. THE DEFENDANTS' FRAUDULENT MISSTATEMENTS AND OMISSIONS

a. Misleading Disclosures Related to the FDA Application

11. For any medical device to be marketed in the U.S. legally, it must first obtain approval from the FDA. The FDA uses the Premarket Approval ("PMA") application to evaluate the safety and effectiveness of Class III medical devices. Class III devices are those that support or sustain human life, are of substantial importance in preventing the impairment of human health, or which present a potential, unreasonable risk of illness or injury. PMA approval is based on a determination by the FDA that the device is safe and effective for its intended use.

12. From October 2008 to December 2009, Imaging repeatedly disclosed in public filings that it expected to file a PMA application with the FDA by specific deadlines identified in each of the following public filings. Each time, Grable and Schwartz had information showing Imaging could not meet the stated deadline. The following chart contains Imaging's misleading disclosures:

Filing	Filing Date	Misleading disclosure
Form S-1	October 28, 2008	"As of September 2008, 10 clinical sites are participating in the clinical trials and we are on schedule to complete the data collection and submit the PMA application in its entirety to the FDA in December 2008."
Form 10-Q	November 12, 2008	"As of November 2008, 10 clinical sites are participating in the clinical trials and we believe we are on schedule to complete the data collection and submit the PMA application in its entirety in December 2008."
Schedule 14A	November 13, 2008	"Our number one priority is the submission of our PMA application to the FDA which we expect to occur in December 2008."
Form S-1	December 30, 2008	"We had planned on submitting our PMA application to the FDA in December 2008; however, due to unforeseen delays in data collection, our expected filing date has been pushed out into the first quarter of 2009."
Form 10-Q	February 9, 2009	"As of February 2009, 10 clinical sites are participating in the clinical trials and we believe we are on schedule to complete the data collection and submit the PMA application in its entirety during the quarter ending June 30, 2009."
Form 10-Q	May 11, 2009	"As of May 2009, 10 clinical sites have participated in the clinical trials and we believe we have sufficient clinical data to support our PMA application. While we anticipate that the remaining PMA process consisting of the reading phase, the statistical tabulation phase and submission of the application to the FDA should be completed in 2009, these milestones cannot be met unless we obtain sufficient financing through the sale of equity or debt securities."
Form 10-K	October 13, 2009	"After we file our PMA application, we expect commissions, trade show expenses, advertising and promotion and travel and subsistence costs to increase as we continue to implement our global commercialization program." "We had anticipated that revenues would have been a significant source of cash by the date of this report, but commercialization has been slower than expected largely due to the delay in obtaining the PMA from the FDA, which we believe has depressed our stock price."
Form S-1	December 9, 2009	"We had originally planned on submitting our PMA application to the FDA in December 2008; however, while we anticipate that the remaining PMA process consisting of the reading phase, the statistical tabulation phase and submission of the application to the FDA should be completed by April 2010, these milestones cannot be met unless we obtain sufficient financing through the sale of equity or debt securities."

13. Schwartz along with the comptroller of the company prepared all of the public filings. After a draft was prepared, both Schwartz and Grable reviewed the filings prior to

signing the filings. Prior to the beginning of 2012, Schwartz and Grable were the only executive officers of Imaging, and they were also the only inside directors.

14. Grable and Schwartz signed all of the above filings except the Schedule 14A, which included a letter only Grable signed. The Forms 10-K and 10-Q also included certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") that both Grable and Schwartz signed. Each certification at issue included a representation that the filing "does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made . . . not misleading . . . ."

15. At the time Imaging was publicly stating dates by which it expected to file its PMA application with the FDA, Grable and Schwartz had information showing Imaging would be unable to meet these deadlines. Indeed, as ultimately reflected on an Amended Form S-1 filed on April 26, 2011 and a Form 10-Q filed on February 17, 2012, both signed by Grable and Schwartz, Imaging stated that "[i]n September 2008, we were advised that we did not have sufficient cancer cases to finish the clinical study required for the PMA statistical analysis to be processed by our independent bio-statistician." Imaging needed the additional cancer cases to complete and file its PMA application, which Grable and Schwartz knew. Nevertheless, as set forth above, Imaging stated it expected to file, or was "on schedule to complete," its PMA application in December 2008, the first quarter of 2009, June 30, 2009, and April 2010.

16. Additionally, in November 2008, Imaging stopped its clinical trials because it could no longer afford to pay its clinical sites. Without the data from the clinical sites, Imaging could not complete its PMA application. At the time, Grable knew Imaging had stopped paying for its clinical sites and stopped conducting its clinical trials. Schwartz, as CFO, was responsible for paying for the clinical sites and knew Imaging was delinquent in the payments. Schwartz

also knew Imaging needed at least $150,000 to pay a radiologist to read and statistically tabulate the clinical data, and that Imaging did not have those funds. Nevertheless, Imaging continued to list the unrealistic and impossible deadlines in its public filings.

17. On May 7, 2009, Imaging's senior vice-president, who worked on the FDA approval process, sent an email to Grable and Schwartz stating "[n]o specific date should be placed on the PMA submission" because "at this point without funds or any in the works there is no telling how or when we will be able to submit."

18. Despite this explicit warning, Grable and Schwartz continued to forecast publicly that Imaging expected its PMA application to be submitted to the FDA by specific dates. In fact, Imaging's next filings were as misleading as the previous five. The filing dated May 11, 2009 claimed Imaging had "sufficient clinical data to support [its] PMA application" and the application should be completed in 2009. Once again, Grable and Schwartz knew Imaging would be unable to meet the deadline because of the warning of the senior vice-president, and they both knew that they had inadequate funding to complete the filing.

19. In its Form 10-K dated October 13, 2009, Imaging told investors "[w]e had anticipated that revenues would have been a significant source of cash by the date of this report, but commercialization has been slower than expected largely due to the delay in obtaining the PMA from the FDA, which we believe has depressed our stock price." Imaging cited the delay in obtaining the PMA from the FDA as the reason for its slow commercialization process, but failed to disclose to investors it could not complete the PMA application.

20. By December 2009, Imaging stated the application "should be completed by April 2010." Again, Grable and Schwartz knew Imaging would be unable to meet this deadline.

b. Failure to Pay Payroll Taxes

21. Beginning in or about January 2010, Imaging was having severe financial difficulties. As a result, Imaging stopped remitting payroll taxes to the IRS for its employees. Both Grable and Schwartz knew Imaging had ceased remitting payroll taxes to the IRS.

22. Grable and Schwartz's decision to stop remitting payroll taxes to the IRS constituted a known trend, demand, commitment, event, or uncertainty that Imaging should have disclosed in the Management's Discussion and Analysis ("MD&A") of its periodic filings for the quarter ending March 31, 2010, September 30, 2010, and December 31, 2010, and for the fiscal year ending June 30, 2010. These filings included no mention of Imaging's failure to remit payroll taxes to the IRS.

23. It was not until Imaging's 10-Q filed on May 18, 2011 that it publicly disclosed its failure to remit payroll taxes to the IRS when it stated, "[a]s of March 31, 2011, we owe $157,770 in accrued wages and $719,225 in accrued payroll taxes. The $719,225 represents unfunded payroll taxes, interest and penalties for the last five quarters commencing with the quarter ending March 31, 2010." Grable and Schwartz both signed this filing. At that point, the IRS could have levied Imaging's assets, which could have caused the business to cease operating. However, Imaging still failed to include any discussion in the MD&A section of its periodic reports discussing or explaining these risks to investors of the known trend, demand, commitment, event, or uncertainty.

24. In both the Form 10-Q filed on May 18, 2011 and the Form 10-K filed on September 22, 2011, although there was a disclosure regarding the accrual, the MD&A section was silent regarding Imaging's failure to remit payroll taxes.

25. In the accrual Imaging first disclosed in the Form 10-Q filed on May 18, 2011, the accrual was understated, as Imaging failed to properly accrue for all known IRS penalties. On September 22, 2011, Imaging revised its accrual and included all IRS penalties. The new disclosure stated, "As of June 30, 2011, we owe $145,832 in accrued wages and $1,141,968 in accrued payroll taxes. The $1,141,968 in accrued payroll taxes represents unfunded payroll taxes, interest and penalties for the last six quarters commencing with the quarter ending March 31, 2010." This disclosure included an additional 15% penalty that had not been previously disclosed to investors.

26. On November 23, 2011, the IRS filed a notice of federal tax lien in the amount of $799,906 with the State of Florida.

27. It was not until November 29, 2011 that Imaging finally disclosed the risks associated with its failure to pay payroll taxes in its public filings when it stated,

> A claim could be made by the IRS for immediate payment of our accrued payroll taxes, interest and penalties, which total $1,141,967 as of June 30, 2011, and continue to grow; however, we hope to work with the IRS to formulate and implement a viable payment plan. We have hired special counsel to handle this matter and hope to have a reasonable time to resolve it without jeopardizing operations. We intend to fully satisfy our tax obligations and are seeking long-term financing in this regard. . . .
>
> If we ultimately are unable to pay the outstanding tax, penalties and interest on a timetable satisfactory to the IRS, then we may have to cease operations.

28. None of Imaging's previous disclosures explained the potentially disastrous consequences of its failure to remit payroll taxes to the IRS.

29. Schwartz along with the comptroller of the company prepared all of the public filings. After a draft was prepared, both Schwartz and Grable reviewed the filings for errors

prior to them becoming public. Prior to the beginning of 2012, Schwartz and Grable were the only executive officers of Imaging, and they were also the only inside directors.

30. Grable and Schwartz signed the periodic filings for the quarter ending March 31, 2010, September 30, 2010, December 31, 2010, and March 31, 2011 and for the fiscal year ending June 30, 2010 and June 30, 2011. The filings also included certifications pursuant to Section 302 of Sarbanes-Oxley, which Grable and Schwartz signed.

c. Failure to File Beneficial Ownership Reports

31. Grable became CEO and Chairman of the Board of Imaging in April 2008. However, from April 2008 until July 31, 2012 she failed to file any beneficial ownership reports despite the fact that she received both stock and options in 2009, 2010, and 2011. The following chart shows the amount of stock and number of options she was awarded in 2009, 2010, and 2011:

	Stock	Options
2009	800	60,333
2010	5,000	190,625
2011	5,750	109,375

32. Similarly, Schwartz as CFO, failed to file any beneficial ownership reports in 2009, 2010, and 2011 even though he received both stock and options. The following chart shows the amount of stock and number of options he was awarded in 2009, 2010, and 2011:

	Stock	Options
2009	800	31,677
2010	5,000	190,625

2011	5,750	109,375

V. CLAIMS FOR RELIEF

COUNT I

VIOLATIONS OF SECTIONS 17(a)(2) OF THE SECURITIES ACT
(As to all Defendants)

33. The Commission repeats and realleges Paragraphs 1 through 20 of this complaint.

34. On October 28, 2008, December 30, 2008, and December 9, 2009, the Defendants directly and indirectly, by use of the means or instruments of transportation or communication in interstate commerce and by the use of the mails, in the offer or sale of securities obtained money or property by means of untrue statements of material facts and omissions to state material facts necessary to make the statements made, in the light of the circumstances under which they were made, not misleading. By reason of the activities described above, the Defendants directly and indirectly violated, and, unless enjoined, are reasonably likely to continue to violate, Section 17(a)(2) of the Securities Act, 15 U.S.C. § 77q(a)(2).

COUNT II

FRAUD IN VIOLATION OF SECTION 10(b) OF THE EXCHANGE ACT AND RULE 10b-5(b) THEREUNDER
(As to all Defendants)

35. The Commission repeats and realleges Paragraphs 1 through 30 of this complaint.

36. From October 2008 through November 2011, the Defendants directly and indirectly, by use of the means and instrumentality of interstate commerce, and of the mails in connection with the purchase or sale of the securities, as described in this complaint, knowingly, willfully or recklessly made untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which

they were made, not misleading. By reason of the activities described above, the Defendants directly or indirectly violated, and, unless enjoined, are reasonably likely to continue to violate, Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Exchange Act Rule 10b-5(b), 17 C.F.R. § 240.10b-5(b), thereunder.

COUNT III

AIDING AND ABETTING VIOLATIONS OF SECTION 10(b) OF THE EXCHANGE ACT AND RULE 10b-5(b) THEREUNDER

(As to Grable and Schwartz)

37. The Commission repeats and realleges Paragraphs 1 through 30 of this Complaint as if fully set forth herein.

38. Defendant Imaging directly and indirectly, by use of the means and instrumentalities of interstate commerce, and of the mails in connection with the purchase or sale of securities, knowingly, willfully or recklessly made untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading. Defendants Grable and Schwartz, directly and indirectly, had a general awareness that they were part of an overall activity that was improper or illegal and knowingly, or acting extremely recklessly, provided substantial assistance to violations by Imaging of Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5(b) thereunder, 17 C.F.R. § 240.10b-5(b). By reason of the activities described above, Defendants Grable and Schwartz directly and indirectly violated and unless enjoined are reasonably likely to continue to violate Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5(b) thereunder, 17 C.F.R. § 240.10b-5(b).

COUNT IV

VIOLATIONS OF SECTION 13(a) AND RULES 12b-20, 13a-1, AND 13a-13 OF THE EXCHANGE ACT (As to Imaging)

39. The Commission repeats and realleges Paragraphs 1 through 30 of this Complaint as if fully set forth herein.

40. Section 13(a) of the Exchange Act requires every issuer of securities registered pursuant to Section 12 of the Exchange Act to file with the Commission, in accordance with such rules and regulations as the Commission has prescribed, information and documents required by the Commission to keep reasonably current the information and documents required to be included in or filed with annual reports as the Commission has prescribed. Exchange Act Rule 13a-1 requires such issuers to file annual reports on Form 10-K. Exchange Act Rule 13a-13 requires such issuers to file quarterly reports on Form 10-Q. Imaging failed to include in both the annual reports and quarterly reports such further material information, as was necessary to make the required statements, in light of the circumstances under which they were made, not misleading in violation of Exchange Act Rule 12b-20, 17 C.F.R. § 240.12b-20. By reason of the activities described above, Imaging violated, and unless enjoined, is reasonably likely to continue to violate, Section 13(a) of the Exchange Act, 15 U.S.C. § 78m(a), and Rules 12b-20, 13a-1, and 13a-13, 17 C.F.R. §§ 240.12b-20, 240.13a-1, 240.13a-13, thereunder.

COUNT V

AIDING AND ABETTING VIOLATIONS OF SECTION 13(a) AND RULES 12b-20, 13a-1, AND 13a-13 OF THE EXCHANGE ACT
(As to Grable and Schwartz)

41. The Commission repeats and realleges Paragraphs 1 through 30 of this Complaint as if fully set forth herein.

42. Section 13(a) of the Exchange Act requires every issuer of securities registered pursuant to Section 12 of the Exchange Act to file with the Commission, in accordance with such rules and regulations as the Commission has prescribed, information and documents required by the Commission to keep reasonably current the information and documents required to be included in or filed with annual reports as the Commission has prescribed. Exchange Act Rule 13a-1 requires such issuers to file annual reports on Form 10-K. Exchange Act Rule 13a-13 requires such issuers to file quarterly reports on Form 10-Q. Imaging failed to include in both the annual reports and quarterly reports such further material information, as was necessary to make the required statements, in light of the circumstances under which they were made, not misleading in violation of Exchange Act Rule 12b-20, 17 C.F.R. § 240.12b-20. Defendants Grable and Schwartz, directly and indirectly, had a general awareness that they were part of an overall activity that was improper or illegal and knowingly, or acting extremely recklessly, provided substantial assistance to violations by Imaging of Section 13(a) of the Exchange Act, 15 U.S.C. § 78m(a), and Rules 12b-20, 13a-1, and 13a-13, 17 C.F.R. §§ 240.12b-20, 240.13a-1, 240.13a-13, promulgated thereunder. By reason of the activities described above, Defendants Grable and Schwartz aided and abetted Imaging's violations of, and unless enjoined are reasonably likely to continue to aid and abet violations of Section 13(a) of the Exchange Act, 15 U.S.C. § 78m(a), and Rules 12b-20, 13a-1, and 13a-13, 17 C.F.R. §§ 240.12b-20, 240.13a-1,

240.13a-13, thereunder.

COUNT VI

VIOLATIONS OF SECTIONS 13(b)(2)(A) AND 13(b)(2)(B) OF THE EXCHANGE ACT (As to Imaging)

43. The Commission repeats and realleges Paragraphs 1 through 10 and 21 through 30 of this Complaint as if fully set forth herein.

44. Based on the conduct alleged herein, Imaging violated Section 13(b)(2)(A) of the Exchange Act, 15 U.S.C. § 78m(b)(2)(A), by keeping books and records with fraudulent entries and/or omissions when it failed to properly account for all the IRS penalties related to its failure to pay payroll taxes. Imaging violated Section 13(b)(2)(B) of the Exchange Act, 15 U.S.C. § 78m(b)(2)(B), by failing to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles when it failed to properly account for all the IRS penalties related to its failure to pay payroll taxes. By reason of the activities described above, Imaging violated, and unless enjoined, is reasonably likely to continue to violate, Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act, 15 U.S.C. §§ 78m(b)(2)(A), 78m(b)(2)(B).

COUNT VII

AIDING AND ABETTING VIOLATIONS OF SECTIONS 13(b)(2)(A) AND 13(b)(2)(B) (As to Grable and Schwartz)

45. The Commission repeats and realleges Paragraphs 1 through 10 and 21 through 30 of this Complaint as if fully set forth herein.

46. Imaging violated Section 13(b)(2)(A) of the Exchange Act, 15 U.S.C. §

78m(b)(2)(A), by keeping books and records with fraudulent entries and/or omissions. Imaging also violated Section 13(b)(2)(B) of the Exchange Act, 15 U.S.C. § 78m(b)(2)(B), by failing to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles. Defendants Grable and Schwartz, directly and indirectly, had a general awareness that they were part of an overall activity that was improper or illegal and knowingly, or acting extremely recklessly, provided substantial assistance to violations by Imaging of Sections 13(b)(2)(A), 15 U.S.C. § 78m(b)(2)(A) and 13(b)(2)(B), 15 U.S.C. § 78m(b)(2)(B), of the Exchange Act. By reason of the activities described above, Defendants Grable and Schwartz aided and abetted Imaging's violations of, and unless enjoined are reasonably likely to continue to aid and abet violations of Sections 13(b)(2)(A), 15 U.S.C. § 78m(b)(2)(A), and 13(b)(2)(B), 15 U.S.C. § 78m(b)(2)(B), of the Exchange Act.

COUNT VIII

VIOLATION OF RULE 13a-14 OF THE EXCHANGE ACT (As to Grable and Schwartz)

47. The Commission repeats and realleges Paragraphs 1 through 30 of this Complaint as if fully set forth herein.

48. From at least October 28, 2008 until at least November 14, 2011, Grable and Schwartz certified Imaging's reports filed on Forms 10-Q and Form 10-K pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Exchange Act Rule 13a-14, stating that: they both had reviewed each report; based upon their knowledge, the reports did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements

made, in light of the circumstances under which such statements were made, not misleading; and based upon their knowledge, the financial statements and information contained in each report fairly present in all material respects the financial condition, results of operations and cash flows of the issuer.

49. Grable and Schwartz knew or were reckless in not knowing that the reports they certified contained untrue statements of material fact and omitted to state material facts necessary to make the statements made therein, in light of the circumstances under which the statements were made, not misleading. By reason of the activities described above, Grable and Schwartz violated, and unless enjoined, are reasonably likely to continue to violate, Exchange Act Rule 13a-14, 17 C.F.R. § 240.13a-14, promulgated under Section 302 of the Sarbanes-Oxley Act of 2002.

COUNT IX

VIOLATION OF RULE 13b2-1 OF THE EXCHANGE ACT (As to Grable and Schwartz)

50. The Commission repeats and realleges Paragraphs 1 through 10 and 21 through 30 of this Complaint as if fully set forth herein.

51. Rule 13b2-1 of the Exchange Act, 17 C.F.R. § 240.13b2-1, prohibits any person from directly or indirectly falsifying or causing the falsification of any such accounting books, records, or accounts. By reason of the activities described above, Grable and Schwartz violated and, unless enjoined, are reasonably likely to continue to violate, Rule 13b2-1 of the Exchange Act, 17 C.F.R. § 240.13b2-1.

COUNT X

VIOLATIONS OF SECTION 14(a) AND RULE 14a-9 OF THE EXCHANGE ACT
(As to Imaging and Grable)

52. The Commission repeats and realleges Paragraphs 1 through 20 of this Complaint as if fully set forth herein.

53. On November 13, 2008, Imaging and Grable, by the use of the means and instrumentalities of interstate commerce, of the mails, or of the facilities of a national securities exchange or otherwise: solicited or permitted the use of its name to solicit proxies, consents, authorizations or notices of meetings in respect of Imaging's securities which contained statements which were false and misleading with respect to material facts or omitted to state material facts necessary in order to make the statements therein not false or misleading or necessary to correct any statement in any earlier communication with respect to the solicitation of a proxy for the same meeting or subject matter which became false or misleading. By reason of the activities described above, Imaging and Grable violated and, unless enjoined, are reasonably likely to continue to violate, Section 14(a) of the Exchange Act, 15 U.S.C. § 78n(a), and Rule 14a-9, 17 C.F.R. § 240.14a-9, thereunder.

COUNT XI

VIOLATIONS OF SECTION 16(a) AND RULE 16a-3 OF THE EXCHANGE ACT
(As to Grable and Schwartz)

54. The Commission repeats and realleges Paragraphs 1 through 10 and 31 through 32 of this Complaint as if fully set forth herein.

55. Pursuant to Exchange Act Section 16(a) and Rule 16a-3, Schwartz and Grable, as officers and directors of Imaging, failed to file Form 4s reporting any changes in ownership of

Imaging stock before the second business day following the day on which the subject transactions had been executed in 2009, 2010, and 2011. By reason of the activities described above, Grable and Schwartz violated and, unless enjoined, are reasonably likely to continue to violate, Section 16(a) of the Exchange Act, 15 U.S.C. § 78p(a), and Rule 16a-3, 17 C.F.R. § 240.16a-3, thereunder.

VI. RELIEF REQUESTED

WHEREFORE, the Commission respectfully requests the Court:

Declaratory Relief

Declare, determine and find that the Defendants have committed the violations of the federal securities laws alleged in this complaint.

Permanent Injunction

Issue a Permanent Injunction restraining and enjoining Imaging, its officers, agents, servants, employees, attorneys, representatives, and all persons in active concert or participation with them, and each of them, from violating Section 17(a)(2) of the Securities Act, and Sections 10(b), 13(a), 13(b)(2)(A), 13(b)(2)(B), and 14(a), and Rules 10b-5, 12b-20, 13a-1, 13a-13, and 14a-9, of the Exchange Act; enjoin Grable and her officers, agents, servants, employees, attorneys and all persons in active concert or participation with them and each of them, from violating Section 17(a)(2) of the Securities Act, and Sections 10(b), 13(a), 13(b)(2)(A), 13(b)(2)(B), 14(a), and 16(a) and Rules 10b-5, 12b-20, 13a-1, 13a-13, 13a-14, 13b2-1, 14a-9, and 16a-3 of the Exchange Act; and enjoin Schwartz and his officers, agents, servants, employees, attorneys and all persons in active concert or participation with them and each of them, from violating Section 17(a)(2) of the Securities Act, and Sections 10(b), 13(a),

13(b)(2)(A), 13(b)(2)(B), and 16(a) and Rules 10b-5, 12b-20, 13a-1, 13a-13, 13a-14, 13b2-1, and 16a-3 of the Exchange Act.

Penalties

Issue an Order directing each of the Defendants to pay a civil money penalty pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d), and Section 21(d) of the Exchange Act, 15 U.S.C. § 78u(d).

Officer and Director Bar

Issue an Order barring Defendants Grable and Schwartz from serving as an officer or director of any public company pursuant to Section 21(d)(2) of the Exchange Act, 15 U.S.C. § 78u(d)(2).

Penny Stock Bar

Issue an order barring Grable and Schwartz from participating in any offering of penny stock, pursuant to Section 20(g) of the Securities Act, 15 U.S.C. § 77t(g), and Section 21(d) of the Exchange Act, 15 U.S.C. § 78u(d).

Further Relief

Grant such other and further relief as may be necessary and appropriate.

Retention of Jurisdiction

Further, the Commission respectfully requests the Court retain jurisdiction over this action in order to implement and carry out the terms of all orders and decrees that may be entered or to entertain any suitable application of motion by the Commission for additional relief within the jurisdiction of this Court.

Respectfully submitted,

September 18, 2013

By: Robert K. Levenson

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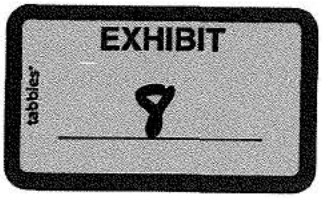


UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

March 17, 2014

Date of Report
(Date of Earliest Event Reported)

IMAGING DIAGNOSTIC SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Florida	**0-26028**	[redacted]
(State or Other Jurisdiction of Incorporation or Organization)	(Commission File Number)	(I.R.S. Employer Identification Number)

1291-B NW 65 PLACE
FORT LAUDERDALE, FL 33309

(Address of principal executive offices)

5307 NW 35TH TERRACE
FORT LAUDERDALE, FL 33309

(Former address if changed from Last Report)

(954) 581-9800

(Registrant's telephone number)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act. (17 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act. (17 240.13e-4(c))

Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On March 17, 2014, our Board of Directors appointed Richard J. Grable II to serve as an Officer and Director. Immediately upon the appointment of Mr. Grable as an officer and director of the Company, our Chief Executive Officer and Chairman, Linda B. Grable, and our Executive Vice President and Chief Financial Officer and Director, Allan L. Schwartz, resigned from their positions as officers and directors of the Company. These resignations occurred as a result of the entry of agreed final judgments against Ms. Grable and Mr. Schwartz in the litigation brought by the Securities and Exchange Commission ("SEC") against them and the Company in September 2013. See Item 8.01 "Other Events."

Mr. Grable has more than 13 years marketing experience having served as Marketing Manager and Director of Marketing for public and private companies in the medical and other global industries. He began his career as a Marketing Manager in 2000 for one of the world's largest and oldest publishers in the maritime industry, The Maritime Group. From 2010 until 2013, Mr. Grable worked for IDSI as the Company's Director of Marketing. Grable earned a bachelor's degree in psychology from the Florida Atlantic University in 1998. Mr. Grable is the son of Ms. Grable, and her late husband, the Company's founder, Richard J. Grable. A compensation package for Mr. Grable will be determined by the Board at a later date.

Item 8.01. Other Events.

On September 19, 2013, IDSI was served with a Complaint filed by the U.S. Securities and Exchange Commission (the "SEC") in the U.S. District Court for the Southern District of Florida against IDSI, IDSI's chief executive officer Linda Grable and IDSI's chief financial officer Allan Schwartz. The Complaint alleged that the Company and the individual defendants made material misstatements and omissions in public filings in 2008 and 2009 regarding the timing of its application for FDA marketing approval and in 2010 regarding IDSI's failure to remit payroll taxes to the Internal Revenue Service. Finally, the SEC Complaint alleged that Mrs. Grable and Mr. Schwartz failed to timely file beneficial ownership reports in 2009, 2010 and 2011 regarding grants to them of restricted stock and stock options.

The Complaint charged IDSI, Ms. Grable and Mr. Schwartz with violating Section 17(a)2 of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5(b) under the Exchange Act. The Complaint also alleged violations of various other provisions of the Exchange Act and rules thereunder. The SEC sought permanent injunctions against securities law violations, as well as and penny stock bars and officer and director bars against Ms. Grable and Mr. Schwartz. The Complaint also sought unspecified civil financial penalties.

On March 17, 2014, agreed final judgments were entered pursuant to a settlement agreement between the parties. Under the settlement, neither Ms. Grable, Mr. Schwartz nor the Company admitted or denied the SEC's allegations. All of the injunctive relief sought by the SEC was granted, including prohibitions on service by Ms. Grable and Mr. Schwartz as officers or directors of public companies. In addition, each individual defendant agreed to a civil penalty judgment of $150,000. The judgment against the Company contains no financial relief and is limited to injunctive relief prohibiting future securities law violations.

The individual defendants and the Company entered into this settlement because they believed that it was in the best interests of the Company.

SIGNATURES

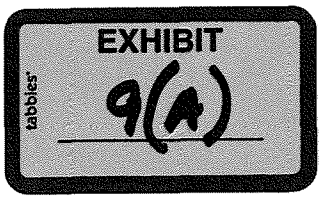
Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

IMAGING DIAGNOSTIC SYSTEMS, INC.

Date: March 21, 2014

/s/ Richard J. Grable II

By: Richard J. Grable II
President



UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

Case No. 13-62025-CIV-ROSENBAUM/HUNT

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

IMAGING DIAGNOSTIC SYSTEMS, INC., LINDA GRABLE, and ALLAN SCHWARTZ,

Defendants.
_____/

FINAL JUDGMENT OF PERMANENT INJUNCTION AND OTHER RELIEF AGAINST DEFENDANT IMAGING DIAGNOSTIC SYSTEMS, INC.

The Securities and Exchange Commission having filed a Complaint and Defendant Imaging Diagnostic Systems, Inc. ("Imaging"), having waived service of the summons and Complaint; entered a general appearance; consented to the Court's jurisdiction over Imaging and the subject matter of this action; consented to entry of this Final Judgment without admitting or denying the allegations of the Complaint (except as to personal and subject-matter jurisdiction, which Imaging admits); waived findings of fact and conclusions of law; and waived any right to appeal from this Final Judgment:

I.

VIOLATIONS OF SECTION 17(a)(2) OF THE SECURITIES ACT OF 1933

IT IS ORDERED AND ADJUDGED that Imaging and its officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them who receive actual

notice of this Final Judgment by personal service or otherwise are permanently restrained and enjoined from violating Section 17(a)(2) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. § 77q(a)(2), in the offer or sale of any security by the use of any means or instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly, to obtain money or property by means of any untrue statement of a material fact or any omission of a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; by, directly or indirectly, (i) creating a false appearance or otherwise deceiving any person, or (ii) disseminating false or misleading documents, materials, or information or making, either orally or in writing, any false or misleading statement in any public filing or any communication with any investor or prospective investor, about the prospects for success of any product or company.

II.

VIOLATIONS OF SECTION 10(b) OF THE SECURITIES EXCHANGE ACT OF 1934 AND EXCHANGE ACT RULE 10b-5(b)

IT IS FURTHER ORDERED AND ADJUDGED that Imaging and its officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them who receive actual notice of this Final Judgment by personal service or otherwise are permanently restrained and enjoined from violating, directly or indirectly, Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act"), 15 U.S.C. § 78j(b), and Exchange Act Rule 10b-5(b), 17 C.F.R. § 240.10b-5(b), by using any means or instrumentality of interstate commerce, or of the mails, or of any facility of any national securities exchange, in connection with the purchase or sale of any security to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made,

not misleading, by directly or indirectly, (i) creating a false appearance or otherwise deceiving any person, or (ii) disseminating false or misleading documents, materials, or information or making, either orally or in writing, any false or misleading statement in any public filing or any communication with any investor or prospective investor, about the prospects for success of any product or company.

III.

VIOLATIONS OF EXCHANGE ACT SECTION 13(a)
AND RULES 12b-20, 13a-1, AND 13a-13

IT IS FURTHER ORDERED AND ADJUDGED that Imaging and its officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them who receive actual notice of this Final Judgment by personal service or otherwise are permanently restrained and enjoined from violating, directly or indirectly, Exchange Act Section 13(a), 15 U.S.C. § 78m(a), and Rules 12b-20, 13a-1, and 13a-13, 17 C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13, by failing to file accurate reports with the Commission.

IV.

VIOLATIONS OF EXCHANGE ACT SECTIONS 13(b)(2)(A) AND (B)

IT IS FURTHER ORDERED AND ADJUDGED that Imaging and its officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them who receive actual notice of this Final Judgment by personal service or otherwise, are permanently restrained and enjoined from violating, directly or indirectly, Exchange Act Sections 13(b)(2)(A) and 13(b)(2)(B), 15 U.S.C. §§ 78m(b)(2)(A) and 78m(b)(2)(B), by failing to:

(a) make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of its assets; and

(b) devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that:

(i) transactions are executed in accordance with management's general or specific authorization;

(ii) transactions are recorded as necessary (I) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements, and (II) to maintain accountability for assets;

(iii) access to assets is permitted only in accordance with management's general or specific authorization; and

(iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

V.

VIOLATIONS OF EXCHANGE ACT SECTION 14(a) AND RULE 14a-9

IT IS FURTHER ORDERED AND ADJUDGED that Imaging and its officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them who receive actual notice of this Final Judgment by personal service or otherwise are permanently restrained and enjoined from violating, directly or indirectly, Exchange Act Section 14(a), 15 U.S.C. § 78n(a), and Rule 14a-9, 17 C.F.R. § 240.14a-9, by soliciting, by the use of the mails or by any means or instrumentality of interstate commerce or of any facility of a national securities exchange or otherwise, and by means of a proxy statement, form of proxy, notice of meeting or other

communication, written or oral, containing statements which, at the time and in light of the circumstances under which they were made, were false and misleading with respect to material facts, or omitted to state material facts necessary in order to make the statements therein not false or misleading or necessary to correct statements in earlier communications with respect to the solicitation of the proxy for the same meeting or subject matter which was false or misleading.

VI.

CIVIL PENALTY

IT IS FURTHER ORDERED AND ADJUDGED that the Commission's claim for a civil penalty against Imaging is dismissed.

VII.

RETENTION OF JURISDICTION

IT IS FURTHER ORDERED AND ADJUDGED that this Court shall retain jurisdiction of this matter for the purposes of enforcing the terms of this Final Judgment in order to implement and carry out the terms of all Orders and Decrees that may be entered and to entertain any suitable application or motion for additional relief within the jurisdiction of this Court, and will order other relief that this Court deems appropriate under the circumstances.

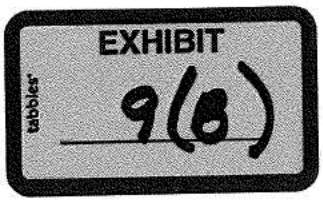
VIII.

RULE 54(b)

There being no just reason for delay, pursuant to Rule 54(b) of the Federal Rules of Civil Procedure, the Clerk is ordered to enter this Final Judgment forthwith and without further notice.

DONE AND ORDERED in Fort Lauderdale, Florida this 17th day of March 2014.

ROBIN S. ROSENBAUM
UNITED STATES DISTRICT JUDGE



UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

Case No. 13-62025-CIV-ROSENBAUM/HUNT

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

IMAGING DIAGNOSTIC SYSTEMS, INC., LINDA GRABLE, and ALLAN SCHWARTZ,

Defendants.
_____/

FINAL JUDGMENT OF PERMANENT INJUNCTION AND OTHER RELIEF AGAINST DEFENDANT LINDA GRABLE

The Securities and Exchange Commission having filed a Complaint and Defendant Linda Grable having waived service of the summons and Complaint; entered a general appearance; consented to the Court's jurisdiction over her and the subject matter of this action; consented to entry of this Final Judgment without admitting or denying the allegations of the Complaint (except as provided in Section XIII below and except as to personal and subject-matter jurisdiction, which Grable admits); waived findings of fact and conclusions of law; and waived any right to appeal from this Final Judgment:

I.

VIOLATIONS OF SECTION 17(a)(2) OF THE SECURITIES ACT OF 1933

IT IS ORDERED AND ADJUDGED that Grable and her officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them who receive actual

notice of this Final Judgment by personal service or otherwise are permanently restrained and enjoined from violating Section 17(a)(2) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. § 77q(a)(2), in the offer or sale of any security by the use of any means or instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly, to obtain money or property by means of any untrue statement of a material fact or any omission of a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; by, directly or indirectly, (i) creating a false appearance or otherwise deceiving any person, or (ii) disseminating false or misleading documents, materials, or information or making, either orally or in writing, any false or misleading statement in any public filing or any communication with any investor or prospective investor, about the prospects for success of any product or company.

II.

VIOLATIONS OF SECTION 10(b) OF THE SECURITIES EXCHANGE ACT OF 1934 AND EXCHANGE ACT RULE 10b-5(b)

IT IS FURTHER ORDERED AND ADJUDGED that Grable and her officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them who receive actual notice of this Final Judgment by personal service or otherwise are permanently restrained and enjoined from violating, directly or indirectly, Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act"), 15 U.S.C. § 78j(b), and Exchange Act Rule 10b-5(b), 17 C.F.R. § 240.10b-5(b), by using any means or instrumentality of interstate commerce, or of the mails, or of any facility of any national securities exchange, in connection with the purchase or sale of any security to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made,

not misleading, by directly or indirectly, (i) creating a false appearance or otherwise deceiving any person, or (ii) disseminating false or misleading documents, materials, or information or making, either orally or in writing, any false or misleading statement in any public filing or any communication with any investor or prospective investor, about the prospects for success of any product or company.

III.

AIDING AND ABETTING VIOLATIONS OF EXCHANGE ACT SECTION 10(b) AND RULE 10b-5(b)

IT IS FURTHER ORDERED AND ADJUDGED that Grable and her officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them who receive actual notice of this Final Judgment by personal service or otherwise are permanently restrained and enjoined from violating, directly or indirectly, Exchange Act Section 10(b), 15 U.S.C. § 78j(b), and Rule 10b-5(b), 17 C.F.R. § 240.10b-5(b), by using any means or instrumentality of interstate commerce, or of the mails, or of any facility of any national securities exchange, in connection with the purchase or sale of any security to knowingly provide substantial assistance to another in making any untrue statement of a material fact or omitting to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, by directly or indirectly, (i) creating a false appearance or otherwise deceiving any person, or (ii) disseminating false or misleading documents, materials, or information or making, either orally or in writing, any false or misleading statement in any public filing or any communication with any investor or prospective investor, about the prospects for success of any product or company.

IV.

AIDING AND ABETTING VIOLATIONS OF EXCHANGE ACT SECTION 13(a) AND RULES 12b-20, 13a-1, AND 13a-13

IT IS FURTHER ORDERED AND ADJUDGED that Grable and her officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them who receive actual notice of this Final Judgment by personal service or otherwise are permanently restrained and enjoined from aiding and abetting any violations of Exchange Act Section 13(a), 15 U.S.C. § 78m(a), and Rules 12b-20, 13a-1, and 13a-13, 17 C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13, by knowingly providing substantial assistance to an issuer that fails to file accurate reports with the Commission.

V.

AIDING AND ABETTING VIOLATIONS OF EXCHANGE ACT SECTIONS 13(b)(2)(A) AND 13(b)(2)(B)

IT IS FURTHER ORDERED AND ADJUDGED that Grable and her officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them who receive actual notice of this Final Judgment by personal service or otherwise, are permanently restrained and enjoined from aiding and abetting any violations of Exchange Act Sections 13(b)(2)(A) and 13(b)(2)(B), 15 U.S.C. §§ 78m(b)(2)(A) and 78m(b)(2)(B), by knowingly providing substantial assistance to an issuer that fails to:

(a) make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of its assets; and

(b) devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that:

(i) transactions are executed in accordance with management's general or specific authorization;

(ii) transactions are recorded as necessary (I) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements, and (II) to maintain accountability for assets;

(iii) access to assets is permitted only in accordance with management's general or specific authorization; and

(iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

VI.

VIOLATIONS OF EXCHANGE ACT RULE 13a-14

IT IS FURTHER ORDERED AND ADJUDGED that Grable and her officers, agents, servants, employees, attorneys, representatives, and all persons in active concert or participation with them who receive actual notice of this Final Judgment, by personal service or otherwise are permanently restrained and enjoined from violating, directly or indirectly, Exchange Act Rule 13a-14, 17 C.F.R. § 240.13a-14, by improperly certifying in any periodic reports filed with the Commission that to the best of her knowledge such reports contain no untrue statements of material fact or omissions of material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading.

VII.

VIOLATIONS OF EXCHANGE ACT RULE 13b2-1

IT IS FURTHER ORDERED AND ADJUDGED that Grable and her officers, agents, servants, employees, attorneys, representatives, and all persons in active concert or participation with them who receive actual notice of this Final Judgment, by personal service or otherwise are permanently restrained and enjoyed from violating, directly or indirectly, Exchange Act Rule 13b2-1, 17 C.F.R. § 240.13b2-1, by falsifying or causing the falsification of any issuer's accounting books, records, or accounts.

VIII.

VIOLATIONS OF EXCHANGE ACT SECTION 14(a) AND RULE 14a-9

IT IS FURTHER ORDERED AND ADJUDGED that Grable and her officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them who receive actual notice of this Final Judgment by personal service or otherwise are permanently restrained and enjoined from violating, directly or indirectly, Exchange Act Section 14(a), 15 U.S.C. § 78n(a), and Rule 14a-9 17 C.F.R. § 240.14a-9, by soliciting, by the use of the mails or by any means or instrumentality of interstate commerce or of any facility of a national securities exchange or otherwise, and by means of a proxy statement, form of proxy, notice of meeting or other communication, written or oral, containing statements which, at the time and in light of the circumstances under which they were made, were false and misleading with respect to material facts, or omitted to state material facts necessary in order to make the statements therein not false or misleading or necessary to correct statements in earlier communications with respect to the solicitation of the proxy for the same meeting or subject matter which was false or misleading.

IX.

VIOLATIONS OF EXCHANGE ACT SECTION 16(a) AND RULE 16a-3

IT IS FURTHER ORDERED AND ADJUDGED that Grable and her officers, agents, servants, employees, attorneys, representatives and all persons in active concert or participation with them who receive actual notice of this Final Judgment by personal service or otherwise are permanently restrained and enjoined from violating, directly or indirectly, Exchange Act Section 16(a), 15 U.S.C. § 78p(a), and Rule 16a-3, 17 C.F.R. § 240.16a-3, by failing to file reports with the Commission that accurately and fairly reflect her beneficial ownership of any equity security of a class which is registered pursuant to Section 12 of the Exchange Act, 15 U.S.C. § 78l, and any changes in such beneficial ownership.

X.

OFFICER AND DIRECTOR BAR

IT IS FURTHER ORDERED AND ADJUDGED that, pursuant to Section 21(d)(2) of the Exchange Act, 15 U.S.C. § 78u(d)(2), and Section 20(e) of the Securities Act, 15 U.S.C. § 77t(e), Grable is prohibited from acting as an officer or director of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act, 15 U.S.C. § 78l, or that is required to file reports pursuant to Section 15(d) of the Exchange Act, 15 U.S.C. § 78o(d).

XI.

PENNY STOCK BAR

IT IS FURTHER ORDERED AND ADJUDGED that Grable is permanently barred from participating in an offering of penny stock, including engaging in activities with a broker, dealer, or issuer for purposes of issuing, trading, or inducing or attempting to induce the purchase or sale of

any penny stock. A penny stock is any equity security that has a price of less than five dollars, except as provided in Rule 3a51-1 under the Exchange Act, 17 C.F.R. § 240.3a51-1.

XII.

CIVIL PENALTY

IT IS FURTHER ORDERED AND ADJUDGED that Grable shall pay a civil penalty in the amount of $150,000 to the Securities and Exchange Commission pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d), and Section 21(d) of the Exchange Act, 15 U.S.C. § 78u(d). Grable shall make this payment within 14 days of entry of this Final Judgment.

Grable may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request. Payment may also be made directly from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm. Grable may also pay by certified check, bank cashier's check, or United States postal money order payable to the Securities and Exchange Commission, which shall be delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

and shall be accompanied by a letter identifying the case title, civil action number, and name of this Court; Grable's name as a defendant in this action; and specifying that payment is made pursuant to this Final Judgment.

Grable shall simultaneously transmit photocopies of evidence of payment and case identifying information to the Commission's counsel in this action, Robert K. Levenson, 801 Brickell Avenue, Suite 1800, Miami, FL 33131. By making this payment, Grable relinquishes all legal and equitable right, title, and interest in such funds and no part of the funds shall be returned

to Grable. The Commission shall send the funds paid pursuant to this Final Judgment to the United States Treasury. Grable shall pay post-judgment interest on any delinquent amounts pursuant to 28 USC § 1961.

Grable shall not seek or accept, directly or indirectly, reimbursement or indemnification from any source, including but not limited to payment made pursuant to any insurance policy, with regard to any civil penalty amounts Grable pays pursuant to the Final Judgment, regardless of whether such penalty amounts or any part thereof are added to a distribution fund or otherwise used for the benefit of investors. Grable further shall not claim, assert, or apply for a tax deduction or tax credit with regard to any federal, state, or local tax for any penalty amounts she pays pursuant to the Final Judgment, regardless of whether such penalty amounts or any part thereof are added to a distribution fund or otherwise used for the benefit of investors.

XIII.

BANKRUPTCY NONDISCHARGEABILITY

IT IS FURTHER ORDERED AND ADJUDGED that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. § 523, the allegations in the Complaint are deemed true and admitted by Grable, and, further, any debt for a civil penalty or other amounts due by Grable under this Final Judgment or any other judgment, order, consent, order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Grable of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. § 523(a)(19).

XIV.

RETENTION OF JURISDICTION

IT IS FURTHER ORDERED AND ADJUDGED that this Court shall retain jurisdiction of this matter for the purposes of enforcing the terms of this Final Judgment in order to implement and carry out the terms of all Orders and Decrees that may be entered and/or to entertain any suitable application or motion for additional relief within the jurisdiction of this Court, and will order other relief that this Court deems appropriate under the circumstances.

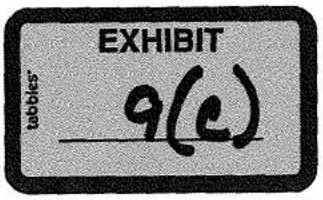
XV.

RULE 54(b)

There being no just reason for delay, pursuant to Rule 54(b) of the Federal Rules of Civil Procedure, the Clerk is ordered to enter this Final Judgment forthwith and without further notice.

DONE AND ORDERED in Fort Lauderdale, Florida this 17th day of March 2014.

ROBIN S. ROSENBAUM
UNITED STATES DISTRICT JUDGE



UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

Case No. 13-62025-CIV-ROSENBAUM/HUNT

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

IMAGING DIAGNOSTIC SYSTEMS, INC., LINDA GRABLE, and ALLAN SCHWARTZ,

Defendants.
_____/

FINAL JUDGMENT OF PERMANENT INJUNCTION AND OTHER RELIEF AGAINST DEFENDANT ALLAN SCHWARTZ

The Securities and Exchange Commission having filed a Complaint and Defendant Allan Schwartz having waived service of the summons and Complaint; entered a general appearance; consented to the Court's jurisdiction over him and the subject matter of this action; consented to entry of this Final Judgment without admitting or denying the allegations of the Complaint (except as provided in Section XII below and except as to personal and subject-matter jurisdiction, which Schwartz admits); waived findings of fact and conclusions of law; and waived any right to appeal from this Final Judgment:

I.

VIOLATIONS OF SECTION 17(a)(2) OF THE SECURITIES ACT OF 1933

IT IS ORDERED AND ADJUDGED that Schwartz and his officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them who receive actual

notice of this Final Judgment by personal service or otherwise are permanently restrained and enjoined from violating Section 17(a)(2) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. § 77q(a)(2), in the offer or sale of any security by the use of any means or instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly, to obtain money or property by means of any untrue statement of a material fact or any omission of a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; by, directly or indirectly, (i) creating a false appearance or otherwise deceiving any person, or (ii) disseminating false or misleading documents, materials, or information or making, either orally or in writing, any false or misleading statement in any public filing or any communication with any investor or prospective investor, about the prospects for success of any product or company.

II.

VIOLATIONS OF SECTION 10(b) OF THE SECURITIES EXCHANGE ACT OF 1934 AND EXCHANGE ACT RULE 10b-5(b)

IT IS FURTHER ORDERED AND ADJUDGED that Schwartz and his officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them who receive actual notice of this Final Judgment by personal service or otherwise are permanently restrained and enjoined from violating, directly or indirectly, Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act"), 15 U.S.C. § 78j(b), and Exchange Act Rule 10b-5(b), 17 C.F.R. § 240.10b-5(b), by using any means or instrumentality of interstate commerce, or of the mails, or of any facility of any national securities exchange, in connection with the purchase or sale of any security to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made,

not misleading, by directly or indirectly, (i) creating a false appearance or otherwise deceiving any person, or (ii) disseminating false or misleading documents, materials, or information or making, either orally or in writing, any false or misleading statement in any public filing or any communication with any investor or prospective investor, about the prospects for success of any product or company.

III.

AIDING AND ABETTING VIOLATIONS OF EXCHANGE ACT SECTION 10(b) AND RULE 10b-5(b)

IT IS FURTHER ORDERED AND ADJUDGED that Schwartz and his officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them who receive actual notice of this Final Judgment by personal service or otherwise are permanently restrained and enjoined from violating, directly or indirectly, Exchange Act Section 10(b), 15 U.S.C. § 78j(b), and Rule 10b-5(b), 17 C.F.R. § 240.10b-5(b), by using any means or instrumentality of interstate commerce, or of the mails, or of any facility of any national securities exchange, in connection with the purchase or sale of any security to knowingly provide substantial assistance to another in making any untrue statement of a material fact or omitting to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, by directly or indirectly, (i) creating a false appearance or otherwise deceiving any person, or (ii) disseminating false or misleading documents, materials, or information or making, either orally or in writing, any false or misleading statement in any public filing or any communication with any investor or prospective investor, about the prospects for success of any product or company.

IV.

AIDING AND ABETTING VIOLATIONS OF EXCHANGE ACT SECTION 13(a) AND RULES 12b-20, 13a-1, AND 13a-13

IT IS FURTHER ORDERED AND ADJUDGED that Schwartz and his officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them who receive actual notice of this Final Judgment by personal service or otherwise are permanently restrained and enjoined from aiding and abetting any violations of Exchange Act Section 13(a), 15 U.S.C. § 78m(a), and Rules 12b-20, 13a-1, and 13a-13, 17 C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13, by knowingly providing substantial assistance to an issuer that fails to file accurate reports with the Commission.

V.

AIDING AND ABETTING VIOLATIONS OF EXCHANGE ACT SECTIONS 13(b)(2)(A) AND 13(b)(2)(B)

IT IS FURTHER ORDERED AND ADJUDGED that Schwartz and his officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them who receive actual notice of this Final Judgment by personal service or otherwise, are permanently restrained and enjoined from aiding and abetting any violations of Exchange Act Sections 13(b)(2)(A) and 13(b)(2)(B), 15 U.S.C. §§ 78m(b)(2)(A) and 78m(b)(2)(B), by knowingly providing substantial assistance to an issuer that fails to:

(a) make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of its assets; and

(b) devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that:

(i) transactions are executed in accordance with management's general or specific authorization;

(ii) transactions are recorded as necessary (I) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements, and (II) to maintain accountability for assets;

(iii) access to assets is permitted only in accordance with management's general or specific authorization; and

(iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

VI.

VIOLATIONS OF EXCHANGE ACT RULE 13a-14

IT IS FURTHER ORDERED AND ADJUDGED that Schwartz and his officers, agents, servants, employees, attorneys, representatives, and all persons in active concert or participation with them who receive actual notice of this Final Judgment, by personal service or otherwise are permanently restrained and enjoined from violating, directly or indirectly, Exchange Act Rule 13a-14, 17 C.F.R. § 240.13a-14, by improperly certifying in any periodic reports filed with the Commission that to the best of her knowledge such reports contain no untrue statements of material fact or omissions of material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading.

VII.

VIOLATIONS OF EXCHANGE ACT RULE 13b2-1

IT IS FURTHER ORDERED AND ADJUDGED that Schwartz and his officers, agents, servants, employees, attorneys, representatives, and all persons in active concert or participation with them who receive actual notice of this Final Judgment, by personal service or otherwise are permanently restrained and enjoyed from violating, directly or indirectly, Exchange Act Rule 13b2-1, 17 C.F.R. § 240.13b2-1, by falsifying or causing the falsification of any issuer's accounting books, records, or accounts.

VIII.

VIOLATIONS OF EXCHANGE ACT SECTION 16(a) AND RULE 16a-3

IT IS FURTHER ORDERED AND ADJUDGED that Schwartz and his officers, agents, servants, employees, attorneys, representatives and all persons in active concert or participation with them who receive actual notice of this Final Judgment by personal service or otherwise are permanently restrained and enjoined from violating, directly or indirectly, Exchange Act Section 16(a), 15 U.S.C. § 78p(a), and Rule 16a-3, 17 C.F.R. § 240.16a-3, by failing to file reports with the Commission that accurately and fairly reflect his beneficial ownership of any equity security of a class which is registered pursuant to Section 12 of the Exchange Act, 15 U.S.C. § 78l, and any changes in such beneficial ownership.

IX.

OFFICER AND DIRECTOR BAR

IT IS FURTHER ORDERED AND ADJUDGED that, pursuant to Section 21(d)(2) of the Exchange Act, 15 U.S.C. § 78u(d)(2), and Section 20(e) of the Securities Act, 15 U.S.C. § 77t(e),

Schwartz is prohibited from acting as an officer or director of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act, 15 U.S.C. § 78l, or that is required to file reports pursuant to Section 15(d) of the Exchange Act, 15 U.S.C. § 78o(d).

X.

PENNY STOCK BAR

IT IS FURTHER ORDERED AND ADJUDGED that Schwartz is permanently barred from participating in an offering of penny stock, including engaging in activities with a broker, dealer, or issuer for purposes of issuing, trading, or inducing or attempting to induce the purchase or sale of any penny stock. A penny stock is any equity security that has a price of less than five dollars, except as provided in Rule 3a51-1 under the Exchange Act, 17 C.F.R. § 240.3a51-1.

XI.

CIVIL PENALTY

IT IS FURTHER ORDERED AND ADJUDGED that Schwartz shall pay a civil penalty in the amount of $150,000 to the Securities and Exchange Commission pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d), and Section 21(d) of the Exchange Act, 15 U.S.C. § 78u(d). Schwartz shall make this payment within 14 days of entry of this Final Judgment.

Schwartz may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request. Payment may also be made directly from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm. Schwartz may also pay by certified check, bank cashier's check, or United States postal money order payable to the Securities and Exchange Commission, which shall be delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch

6500 South MacArthur Boulevard
Oklahoma City, OK 73169

and shall be accompanied by a letter identifying the case title, civil action number, and name of this Court; Schwartz's name as a defendant in this action; and specifying that payment is made pursuant to this Final Judgment.

Schwartz shall simultaneously transmit photocopies of evidence of payment and case identifying information to the Commission's counsel in this action, Robert K. Levenson, 801 Brickell Avenue, Suite 1800, Miami, FL 33131. By making this payment, Schwartz relinquishes all legal and equitable right, title, and interest in such funds and no part of the funds shall be returned to Schwartz. The Commission shall send the funds paid pursuant to this Final Judgment to the United States Treasury. Schwartz shall pay post-judgment interest on any delinquent amounts pursuant to 28 USC § 1961.

Schwartz shall not seek or accept, directly or indirectly, reimbursement or indemnification from any source, including but not limited to payment made pursuant to any insurance policy, with regard to any civil penalty amounts Schwartz pays pursuant to the Final Judgment, regardless of whether such penalty amounts or any part thereof are added to a distribution fund or otherwise used for the benefit of investors. Schwartz further shall not claim, assert, or apply for a tax deduction or tax credit with regard to any federal, state, or local tax for any penalty amounts he pays pursuant to the Final Judgment, regardless of whether such penalty amounts or any part thereof are added to a distribution fund or otherwise used for the benefit of investors.

XII.

BANKRUPTCY NONDISCHARGEABILITY

IT IS FURTHER ORDERED AND ADJUDGED that, solely for purposes of exceptions

to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. § 523, the allegations in the Complaint are deemed true and admitted by Schwartz, and, further, any debt for a civil penalty or other amounts due by Schwartz under this Final Judgment or any other judgment, order, consent, order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Schwartz of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. § 523(a)(19).

XIII.

RETENTION OF JURISDICTION

IT IS FURTHER ORDERED AND ADJUDGED that this Court shall retain jurisdiction of this matter for the purposes of enforcing the terms of this Final Judgment in order to implement and carry out the terms of all Orders and Decrees that may be entered and/or to entertain any suitable application or motion for additional relief within the jurisdiction of this Court, and will order other relief that this Court deems appropriate under the circumstances.

XIV.

RULE 54(b)

There being no just reason for delay, pursuant to Rule 54(b) of the Federal Rules of Civil Procedure, the Clerk is ordered to enter this Final Judgment forthwith and without further notice. The Clerk of the Court shall **CLOSE this case.**

DONE AND ORDERED in Fort Lauderdale, Florida this 17th day of March 2014.

ROBIN S. ROSENBAUM
UNITED STATES DISTRICT JUDGE

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of:)

) File No. FL-03765-A

IMAGING DIAGNOSTIC SYSTEMS,)

INC.)

WITNESS: Linda Grable

PAGES: 1 through 182

PLACE: Securities and Exchange Commission

801 Brickell Avenue, Suite 1800

Miami, Florida 33131

DATE: Monday, January 28, 2013

The above-entitled matter came on for hearing, pursuant to notice, at 12:28 p.m.

APPEARANCES:

On behalf of the Securities and Exchange Commission:
JENNY TROTMAN, ESQ.
THIERRY OLIVIER DESMET, ESQ.
KATHLEEN STRANDELL, CPA
Division of Enforcement
Securities and Exchange Commission
801 Brickell Avenue
Suite 1800
Miami, Florida 33131

On behalf of the Witness:
WALTER J. MATHEWS, ESQ.
Mathews Wallace, LLP
700 S.E. Third Avenue
Suite 300
Fort Lauderdale, Florida 33316

CONTENTS

CONTENTS (cont.)

PROCEEDINGS

MS. TROTMAN: We are on the record at 12:28 p.m. on January 28, 2013.

After an earlier emergency of the court reporter we had to suspend testimony and as a result we are going to start over.

Ms. Grable, if you'd raise your right hand, please.

Do you swear to tell the truth, the whole truth, and nothing but the truth?

MS. GRABLE: Yes.

Whereupon,

LINDA GRABLE,

having been first duly sworn or affirmed, was examined and testified as follows:

EXAMINATION

BY MS. TROTMAN:

Q. Please state your full name and spell your name for the record.

A. Linda B. Grable, L-I-N-D-A B. G-R-A-B-L-E.

Q. My name is Jenny Trotman, I'm a staff attorney in the enforcement division of the Securities and Exchange Commission. Also present is Kathleen Strandell, staff accountant with the

Securities and Exchange Commission. We are officers of the Commission for purposes of this proceeding.

This is an investigation by the United States Securities and Exchange Commission in the matter of Imaging Diagnostic Systems, Incorporated, to determine whether there have been violations of certain provisions of the federal securities laws. However, the facts developed in this investigation might constitute violations of federal or state, civil or criminal laws.

Prior to the opening of the record you were provided with a copy of the formal order of investigation in this matter. It will be available for your examination during the course of this proceeding.

Have you had an opportunity to review the formal order?

A. Yes.

Q. Prior to the opening of the record you were provided with a copy of the Commission's Supplemental Information Form 1662. A copy of that notice was previously marked as Exhibit Number 1.

Have you had an opportunity to read

Exhibit Number 1?

A. Yes.

Q. Do you have any questions concerning Exhibit Number 1?

A. No.

Q. Are you represented by counsel?

A. Yes.

MS. TROTMAN: Would counsel please identify himself?

MR. MATHEWS: Walter Mathews with the firm of Mathews Wallace, LLC.

I would like to make a comment for the record that there was a morning session with a court reporter by the name of Joe. Is it the Commission's position that that transcript will not be used?

MS. TROTMAN: We'll hold off on that question, we'll address it later.

MR. MATHEWS: Okay. My statement is I haven't had an opportunity to review it for accuracy but I would like to make the representation that the last court reporter left under emergency circumstances, he was taken by EMS, he was complaining and he was not able to articulate what was wrong with

him so I would question the accuracy of any prior work that he did. And if you want to revisit those areas feel free to do so.

MS. TROTMAN: And for the record we will be revisiting the questions that we previously asked.

BY MS. TROTMAN:

Q. Ms. Grable, this exhibit was previously marked as Exhibit Number 31.

Do you recognize the document?

A. Yeah.

Q. This is a copy of the subpoena that was marked Exhibit 31. Are you appearing pursuant to this subpoena here today?

A. Yes.

Q. Ms. Grable, the subpoena calls for the production of certain documents.

Have you tendered to the staff all documents called for by the subpoena?

A. Yes.

Q. Ms. Grable, did you personally conduct a search for responsive documents?

A. Yes.

Q. Did anyone else conduct --

A. Yes.

Q. -- a search for responsive documents?

A. Yes. Allan Schwartz.

Q. Okay. It's really important that you allow me to finish my questions before you begin to speak so that way she can take down a clear record. Do you understand?

A. Okay.

Q. Okay. So who else besides you conducted a search for documents responsive to the subpoena?

A. Allan Schwartz.

MR. MATHEWS: Can I clarify something for her? I want to -- Ms. Grable, I want you to look at this subpoena, Exhibit 31, it's to you individually. Now, there was also one given to the company so I want you to make a distinction between the one that was issued to the company and the one that was issued to you. Do you understand?

THE WITNESS: Yeah. But my problem is that I know it was sent to me but I have to discuss it with Allan Schwartz because Allan Schwartz does a lot of the filings for the SEC and he knew a lot more about what all the paperwork, the production you call it, so I had to get him involved in it.

MR. MATHEWS: Linda, typically what the SEC does is they can give a subpoena to the company for certain documents and then to an individual to make sure they're getting a complete production, so by giving a subpoena to you they want to make sure that you've gone through your personal files and things of that nature to produce everything that's responsive.

THE WITNESS: Yeah, yeah.

MR. MATHEWS: So documents may have come from two different locations, the company and then from you personally, and she is asking you about Exhibit 31, you personally. All right?

THE WITNESS: Yeah.

MS. TROTMAN: Yes.

BY MS. TROTMAN:

Q. So Ms. Grable, to clarify, did you personally conduct a search for responsive documents?

A. Yes.

Q. Did anyone else assist you with that search?

MR. MATHEWS: For documents that may be

in your possession?

THE WITNESS: No, I guess. I don't know, we just work together.

BY MS. TROTMAN:

Q. Ms. Grable, you have to answer truthfully, so if somebody else assisted you that's fine but you need to -- like either someone did assist you or they didn't.

So is your testimony here today did somebody else assist you --

A. I'll say no.

Q. Okay. Can you describe the search that you conducted for responsive documents?

A. My files in my computer.

Q. Okay. Did you search anywhere else for responsive documents to the subpoena?

A. No.

Q. Okay. Have you withheld any documents called for by the subpoena based on a claim of privilege?

A. Now what do you mean by that?

MR. MATHEWS: Are there any documents that you are aware of that weren't produced for any reason?

THE WITNESS: No, everything was given.

BY MS. TROTMAN:

Q. Were any documents called for by the subpoena not produced for any other reason other than privilege?

A. No.

Q. Do you know of any documents responsive to the subpoena but were not provided that were in your possession at a prior time or that were lost, destroyed, or otherwise disposed of?

A. No.

Q. Ms. Grable, it's very important for you to allow me to finish my question before you answer. I know you know what I'm going to ask you but she needs to be able to take down an accurate record. Okay.

I am going to show you what's been marked as -- previously marked as Exhibit 32. This is a subpoena that was given to the company.

Ms. Grable, the subpoena calls for the production of certain documents.

Have you tendered all documents called for by the subpoena?

A. Yeah.

MR. MATHEWS: Can I make a statement based upon the earlier testimony? It

appears that I need to go back and talk with the company's counsel to make sure that this subpoena was provided to all employees. It's not clear to me that that has occurred. If it hasn't occurred I would recommend that the company do that and then produce there may be supplemental production.

BY MS. TROTMAN:

Q. Okay. To be clear for the record, Mrs. Grable, did you personally conduct a search for responsive documents in connection with the subpoena?

A. Yes.

Q. So did anyone else assist you with that search?

A. Yes.

Q. Who else assisted you with the search for responsive documents?

A. Allan Schwartz, Greg Rodes, Bob Wake, that's it.

Q. Did you provide a copy of the subpoena to other employees at the company?

A. No.

Q. If you didn't provide a copy of the subpoena to other employees at the company how can

you ensure that all the documents responsive to the subpoena have been produced?

A. Because I personally went into their files and their computers and we got them out.

Q. So is it your testimony here today that you searched every single employees e-mail --

A. Yes.

Q. -- at the company?

A. Yes.

MR. MATHEWS: Wait until she finishes.

THE WITNESS: I'm sorry.

BY MS. TROTMAN:

Q. So you searched every employee not just employees that you think potentially might have responsive documents?

A. Yes.

Q. Okay. Ms. Grable, were any documents called for by the subpoena to Exhibit 32 that were not produced for any other reason other than privilege?

A. No.

Q. Did you know of any documents responsive to the subpoena but not provided that were in your possession at a prior time or that were lost, destroyed, or otherwise disposed of?

A. No.

Q. Ms. Grable, I'm going to hand you what's been previously marked as Exhibit 33. It's a background questionnaire.

Do you recognize this document?

A. Yes.

Q. And what is it?

A. It's a background questionnaire personal.

Q. And who prepared the information contained in the form?

A. Myself.

Q. Ms. Grable, it's very important that you wait until I finish my question.

A. Okay.

MS. MATHEWS: Just slow down, it will be all right.

BY MS. TROTMAN:

Q. Okay. Who completed the information contained in the form?

A. Me.

Q. Did anyone else assist you with that?

A. No.

Q. Is all the information contained in the form accurate?

A. Yeah.

MR. MATHEWS: We do have a clarification to make on page eight. On page eight of the background questionnaire there is an employment history and it talks about the dates of employment when you were at Imaging Diagnostic Systems, Inc., and you weren't continuously employed as president, CEO, and chairman from January 1994 to the present time. Right?

THE WITNESS: No, we had a break.

MR. MATHEWS: And you were no longer associated with the company sometime in 2003. Is that correct?

THE WITNESS: Exactly.

MR. MATHEWS: And would you expect there would be filings that would -- SEC filings that would announce the precise the date in which you were no longer involved in the company?

THE WITNESS: I don't know.

MR. MATHEWS: Maybe. And in 2008 you rejoined the company?

THE WITNESS: Yes.

MR. MATHEWS: Do you recall on which day you rejoined the company?

THE WITNESS: April 16th.

MR. MATHEWS: Of what year?

THE WITNESS: 2008.

BY MS. TROTMAN:

Q. Mrs. Grable, on April 16, 2008, what positions did you hold at Imaging Diagnostic?

A. Chairman of the board and president and the CEO.

Q. What were your responsibilities as president, CEO, and chairman?

A. Administrative, also locating funds for the company because it was left with nothing inside, and to do the -- continue the PMA approval. And that's one of the things that we have to be working on. We started working, that was the main priority in the company at that time was the PMA.

Q. Ms. Grable, can you tell me what PMA stands for?

A. Premarket approval.

Q. And what is that?

A. Premarket approval is the approval that lets you sell the technology. Actually makes the technology real so that you can sell it domestically. We have other licenses in the

international market but --
Q. Isn't it true that a PMA approval, premarket approval is an application to the FDA?
A. Yeah.
Q. Okay. Besides the responsibilities that you just listed did you have any other responsibilities with the company?
A. No. Everyone work. Hiring people, laying off.
Q. Okay. Ms. Grable, any other responsibilities besides that?
A. No. Because I had the CFO, Allan Schwartz, he was in charge of all the filings for the SEC and the payroll.
Q. Okay. And did you have any responsibilities with the SEC filings?
A. Only to look up after she finished the filings I read them and then sign them.
Q. Okay. Ms. Grable, to back up, how did you first become associated with Imaging Diagnostic?
A. That's a long time. I'm retired. Anyway, we developed a system called the Lintro-Scan. We had a 510K approval. And we were selling to in the United States and international.

The radiologist did not like it because it was easy and they weren't making money because you were selling to the regular MD, you know, OB/GYN doctor. My husband decided to go into the CT and do a CT breast scanner instead which will give the radiologists more powerful tool to make money, and because of the readings you have to read the images. And the technology was a lot -- I don't know, you call it more advanced, you know. And it didn't have no x-rays, no compression, and you didn't have to give any shots like MRI. And that's how we came to develop the CTLM.
Q. Okay. Ms. Grable, to back up really quickly, are you on any medication today that would impact your memory or your ability to understand and respond to questions?
A. No.
Q. Is there any other reason you can't testify truthfully here today?
A. No.
MR. MATHEWS: Jenny, I would like to make a statement, and you're aware of this already, in December Ms. Grable did have an emergency heart procedure done and she's been treated by a physician, she is still

seeking treatment by a doctor, her blood pressure has been up in the past, and she is still currently being monitored for proper medication. I'm not anticipating that there would be a problem today but if there were I would appreciate the Commission's flexibility. And we're here to testify to the best that she can.
THE WITNESS: I want to get this over with. Okay. That's it.
BY MS. TROTMAN:
Q. That being said, there is no reason, none of the current medications you are taking would affect your ability to testify here truthful?
A. No. Why do you say truthfully? Why would that have anything to do with medications?
MR. DESMET: We can't answer your questions today, we just ask you questions and you answer them.
THE WITNESS: Okay.
BY MS. TROTMAN:
Q. Ms. Grable, besides yourself is there anyone else who currently serves as the director of Imaging Diagnostic?
A. Yes, Allan Schwartz.

Q. Besides Mr. Schwartz is there anyone else?
A. No.
Q. At Imaging Diagnostic who is responsible for preparing initial drafts of SEC disclosures?
A. Allan.
Q. And by Allan you mean Mr. Schwartz?
A. Yes.
Q. Besides Mr. Schwartz is anyone else responsibile?
A. Actually, the controller helps Allan.
Q. And what is his name?
A. Greg Rodes.
Q. Can you spell Rodes for the record?
A. R-O-D-E-S.
Q. After an initial draft is prepared what happens?
A. What do you mean what happened?
Q. What happens next?
MR. MATHEWS: Are you talking about current filings?
BY MS. TROTMAN:
Q. Like any SEC disclosures.
A. Whatever we have to do we do it and we send it back to you guys signed.

Q. Okay. Ms. Grable, after the first draft is prepared do you review?
A. Yes.
Q. And what do you do when you review the drafts?
A. Read them.
Q. Do you --
A. I make changes sometimes.
Q. And what types of changes do you make?
A. Usually maybe spellings.
Q. Do you make any other types of changes?
A. I don't remember really what changes I made. That's difficult. Sometimes we do spelling checks to make sure that everything is okay, make sure that a sentence is correct.

One of the things about the filings is Allan is very anal with the filings, he puts a lot more than he's supposed to sometimes but he went to school to these meetings in the SEC in Orlando and he knows all the rules and so he puts out a lot. And sometimes I say why you have to put that in there, you know. I have to do that.

BY MR. DESMET:

Q. Is it fair to say then that sometimes you make substantive changes to a filing before it's

disseminated?
A. Not really. It's just sometimes he just tends to overdo things like, you know, sometimes people have control freaks or anal's, I call them anal's, you know, so you have to cut them down because a lot of the things you don't have to put it because they're not necessary.

BY MS. TROTMAN:

Q. Ms. Grable, what would not be necessary that you're referring to?
A. I don't know. Let's see. Like he will say and then the FDA was doing this and says this to us, and this and that, usually it's with the FDA, mostly the FDA because we deal with the FDA a lot. Okay. Even the FDA will tell you you don't have to put all that in there.

BY MR. DESMET:

Q. So in the past using your example you felt that Mr. Schwartz included too much information about the FDA in a draft filing who would have the ultimate say on the language of the final filing?
A. Actually we get three people together to look at the language of the FDA stuff. And that would probably be like maybe Deborah O'Brian, for

instance, when she was with us, or maybe we will ask the engineer do we have to put this because it's a lot of intricate things into an FDA summation and all that, so the FDA will probably ask you to put down the system, what is the system consist of, and he will cut it down.
Q. Let's take a step back. Who is Deborah?
A. Deborah O'Brian used to be VP in the company.
Q. VP of what?
A. Just VP.
Q. Okay. Who is the engineer that you referenced?
A. Bob Wake, he was the VP of engineering.
Q. So my question was who has the ultimate say over the final draft of a filing?
A. Myself, Allan, Bob Wake, and Deborah O'Brian.

BY MS. TROTMAN:

Q. Ms. Grable, to be clear though, we're not talking about FDA filings we are talking SEC filings. Do you understand?
A. Yeah, when you're doing your filings, okay, you have to say something about the FDA because you want to know what the FDA wrote and

all that so we have to put it down. Most of our life right now in the company is really FDA.

BY MR. DESMET:

Q. Just going back to my question. If I understand your testimony you're saying four people have ultimate say with respect to the filings?
A. Used to, we don't have those two people anymore.
Q. Going back to the last four years, who had ultimate say over final language?
A. Deborah O'Brian, Allan Schwartz, myself, and Bob Wake.
Q. And so what did you do when one or more of these individuals actually didn't agree with the other individuals? Who had the ultimate say?
A. Most of the time I would make the decision that was okay.
Q. Okay. And so you're saying some of these individuals have left the company?
A. Yes.
Q. When?
A. Bob Wake and Deborah O'Brian last year.
Q. So since last year who is involved in the process of reviewing or approving filings?

A. Only Allan and I.
Q. Okay. And who has final say?
A. I usually do.
Q. Okay.
A. Usually, remember I said that.
BY MS. TROTMAN:
Q. Ms. Grable, what steps do you take to make sure the SEC disclosures are accurate prior to signing the disclosures?
A. You have to read them.
Q. Besides reading the disclosures what other steps do you take?
A. I don't know, just reading, making sure that they're okay, you know, and just sign them.
BY MS. STRANDELL:
Q. Do you have any discussions with anybody?
A. Probably Bob McCauley, the company attorney.
Q. Other than your company's attorney do you have any discussions with anybody internally?
A. No.
Q. Do you ask anybody to put anything in writing for you that the disclosures are accurate?
A. No.
Q. Do you have discussions with your CFO

about any of the disclosures?
A. Well, you see, we talked, you know, we talk a lot during that so I don't know. I think we both at the same time do it, you know.
Q. So you do have some discussions with your CFO?
A. Of course, he does the filings.
Q. And if you have a disagreement with the CFO regarding things that are included in the filings who has the final say as to what's included?
A. He puts it in any way.
Q. So you just allow him to put it in?
A. As long as it's not something that is not bad for the company, you know.
MR. MATHEWS: Can I ask a clarifying question here?
Ms. Grable, is it accurate to say that Allan Schwartz has a lot of latitude in drafting of SEC filings on behalf of the company?
THE WITNESS: Of course, he's got the experience.
MR. MATHEWS: Okay. Would you expect that if he writes something that he would

have done some sort of due diligence to make sure that those statements are accurate?
THE WITNESS: Yes, because he knows the laws of the SEC, he goes to the school, he goes to all the meetings, you know.
MR. MATHEWS: Okay. If you knew of something factually inaccurate within the files would you bring that to his attention?
THE WITNESS: Yeah, I usually see it and then I talk with him about it, no, no, no, no.
BY MR. DESMET:
Q. You've referenced schools a couple of times. What school are you talking about?
A. A what?
Q. You have referenced that he goes to schools and to meetings, what are you talking about?
A. The SEC has some meetings that comes up twice a year and he usually attends those meetings.
BY MS. STRANDELL:
Q. Are you referring to some seminars?
A. Yeah. He likes those.
Q. And are those done for purposes of his

continuing education requirements?
A. Yeah, yeah.
Q. Okay.
BY MS. TROTMAN:
Q. Ms. Grable, did you ever discuss any of the disclosures with the company's outside auditors?
A. If anybody did that it would have to be Allan.
BY MR. DESMET:
Q. Who are the company auditors?
A. Used to be Sherb out of New York.
Q. When did Sherb cease being the company's auditors?
A. I think it was November or December, I'm not sure.
MR. MATHEWS: Is that Sherb & Company?
THE WITNESS: Yeah, Sherb.
BY MR. DESMET:
Q. Until when, you said when?
A. Either November or December, I'm not quite sure.
Q. Of what year?
A. Last year.
BY MS. TROTMAN:

Q. Why did Sherb cease being the company's auditors?

A. Well, that's a bit of a thing. Somehow the company itself, Sherb & Company, they had some -- what do you call it, thing, something happened and everyone broke out. As a matter of fact, we have two of their people now that was in Sherb that are in Boca Raton and they're going to be doing our auditing from now on.

Q. What are their names?

A. I know you asked me that, I should have brought my stuff, you see.

MR. MATHEWS: If you don't know just say you don't know and we can find that information later.

THE WITNESS: I don't know but we just started with them and they have a very funny name, really long, like polish or something, it's hard to -- it's hard to remember names like that, you know. Frankenstein or stuff like that. It's hard. I can give you the names, you know, you can give it to them the names.

BY MS. STRANDELL:

Q. But these were two individuals who

previously worked on the audits with Sherb?

A. Yeah. They're very good, they used to come to the office to review all the stuff. They went to all the parts in the warehouse and all that, you know.

BY MS. TROTMAN:

Q. Since 2008 besides Mr. Schwartz and yourself have there been any other directors of Imaging Diagnostics?

A. Yes. David Smith. David Smith.

Q. Okay. And when was Mr. Smith a director?

A. I think he was a director for two years. He left last year.

Q. Why did he leave?

A. He left because of this. He didn't want anything to do with the SEC stuff.

Q. And by this you're referring to the subpoena?

A. Yeah.

Q. Did you ever discuss any disclosures with him?

A. No. As a matter of fact, that was one of the biggest reasons why he was a little bit disturbed because I didn't know that I was supposed to tell everybody in the world that I get

a subpoena, and so we kept it quiet, you know, that's what I felt we're supposed to do. And he found out through someone else that we had this and he confronted me with it and I said, David, I'm sorry, I didn't know I was supposed to tell you too, it's one of those things, he says well, Linda, I can't be a director anymore.

Q. Who did he find out from?

A. What do you mean?

Q. You said he learned of the SEC subpoena through someone else, who did he --

A. He didn't tell me.

Q. Ms. Grable, it's very important that you wait for me to finish the question before you start to speak over me so she can keep an accurate record. Okay?

So to be clear, while Mr. Smith was a director at Imaging Diagnostic you never discussed a single SEC disclosure with him?

A. You know what, I don't know. I don't remember that.

BY MR. DESMET:

Q. Did you tell him that the company received a subpoena?

A. No.

Q. Okay. I wasn't sure whether you were talking about your personal subpoena or the subpoena to the company.

A. The subpoena to the company.

BY MS. TROTMAN:

Q. Ms. Grable, who is Mike Addley?

A. Mike is our COO.

Q. Is he currently still employed by the company?

A. He what?

Q. Is he currently still employed by the company?

A. Well, he comes in. He's from Canada so he goes back and forth. He stays three months here, three months over there.

Q. To answer my question, he is still currently employed by the company?

A. Yeah.

Q. Okay. Have you ever discussed any SEC disclosures with Mr. Addley?

A. No.

Q. It's very important for you to allow me to finish my questions so that the court reporter can keep an accurate record. Okay?

A. Okay.

Q. To ask again, have you ever discussed any SEC disclosures with Mr. Addley?
A. Am I supposed to answer you now?
Q. Yes.
A. Because you asked that before and I answered it and you told me wait, you know, I don't know what to do.
MR. MATHEWS: Just slow down a little bit and when she finishes her question --
THE WITNESS: I know. This is the same thing she said before and I answered it, and you told me I should not answer until you finish, I thought you were finished.
BY MS. TROTMAN:
Q. Okay. So can you please answer my question now?
A. Okay, what was the question again?
Q. Have you ever discussed any SEC disclosures with Mr. Addley?
A. I don't think so.
Q. Can you tell me what his title is?
A. COO.
Q. Who is Steven Hicks?
A. He's one of our investors.
Q. How did you first meet Mr. Hicks?

A. Through a fellow called Fred Hanfield.
Q. Who is Mr. Hanfield?
A. Mr. Hanfield was a finder, his company's name was Spinner in Connecticut.
Q. And what did Mr. Hanfield do for you?
A. He found Steve Hicks.
Q. So by finder you mean he found investors or potential investors?
A. He found Steve Hicks.
Q. Okay. What was Mr. Hanfield's role?
A. Finder, you pay him a percentage of what he finds.
Q. So can you explain percentage of what do you mean by what he finds?
A. Well, if Steve Hicks gave us, let's say, $5 million then Fred Hanfield received seven percent of whatever Steve gave us.
Q. When did you first come in contact with Mr. Hicks?
A. That was 15 years ago. I can't remember that day.
Q. Did you ever discuss any SEC disclosures with Mr. Hicks?
A. No. It was just money, we talked about money funding.

Q. Did Mr. Hicks ever receive a draft of a SEC disclosure before it was filed publicly?
A. I don't think so.
Q. Did you ever give Mr. Hicks or anyone at South Ridge press releases before they were filed publicly?
A. No.
Q. Did anyone who is employed by Imaging Diagnostic ever express concern regarding the company's disclosures?
A. I don't think so.
Q. Did any directors of Imaging Diagnostic ever express concern regarding the company's disclosures?
A. Not that I know of.
Q. Who at the company was responsible for drafting press releases?
A. Deborah O'Brian.
Q. Was anyone else responsible?
A. No, Deborah O'Brian. She is no longer with us now. Then we got some of the people doing it like Mike, for instance, sometimes he does the press releases.
Q. By Mike you mean Mr. Addley?
A. Yes.

Q. After Ms. O'Brian drafted a press release who was responsible for reviewing it?
A. Well, I hate to tell you this but when it came to Ms. O'Brian the press releases were just right, that's all she did. She did all the press releases, nobody else, she wouldn't let anybody do anything with them.
Q. So you never reviewed any of the press releases prior to them being disseminated publicly?
A. Sometimes I did, some of them, not all of them.
Q. Besides yourself did anyone else review press releases before they were decimated publicly?
A. No, I don't know think so.
Q. Did Mr. Schwartz review any press releases prior to them being disseminated publicly?
A. Maybe once in awhile Deborah and I would give it to him because he -- again, he's anal when it comes to writing so, you know, like to fix abbreviation or words or something like that.
Q. What steps did you take to ensure that press releases were accurate before they were

disseminated publicly?

A. I just read them. They were good.

Q. Did you ever discuss any press releases with anyone else in the company besides Mrs. O'Brian?

A. Repeat that.

Q. Did you ever discuss any press releases with anyone else at the company besides Mrs. O'Brian?

A. I don't think so.

Q. Did you ever discuss any press releases with Sherb, with anyone at Sherb?

A. No. They only did auditing.

Q. Imaging Diagnostic's main product currently is the CTLM. Is that correct?

A. Yes.

Q. What is the CTLM's current status with the FDA approval?

A. We're waiting for funding so that we can do a summation because the FDA is waiting for us to submit. We have most of the -- a lot of the scans are done already because we did some studies with hospitals in New York and Memphis and we have now collected 1,100 scans, and we have 100 cancers, and so right now we have to go back to

the FDA when we get the funding and they will let us know if we need anymore cancers or anymore patients. If we don't then we submit, we deliver up to the FDA to make sure that we get the approval.

Q. And what type of application do you need to submit currently to get FDA approval?

A. It's called a protocol. We have to follow that very strict.

Q. When did Imaging Diagnostic first file its premarket approval application with the FDA?

A. 2001, I think.

Q. What happened with the initial premarket approval application?

A. We made a mistake and got attorneys involved in the application and they actually advised us wrong. Because we were very naive about applications with the FDA and when we put the machines out in clinical sites the FDA walked in in one of the clinical sites and found out that we weren't -- the doctors were not following the protocol so they gave us a bad review on it because we had clinical people with the people in the clinical site but they were trying to do other work for the doctors instead of doing the CTLM

studies and the FDA walked in and found that out and they got a little bit disturbed and they said you have to redo everything. So we decided that since after spending all that money with attorneys and clinical sites, the clinical sites were $400 a patient, and we did about 11 thousand patients, we spent a lot of money, we decided that we just say well let's stop it and we'll study the system again and start all over again, that's what we had to do.

Once you get a review from the FDA like that you really don't want to continue doing it, you want to do other clinicals.

The doctor in Orlando, she was not really organized. She wasn't following the protocol, that's one thing the FDA wants, to follow the protocol.

Q. You had this initial premarket approval application, did the company decide to submit a second premarket approval application?

A. We decided to go back to the FDA and find out how many patients we needed to do another PMA.

The reason I hate to say anything is because I hope that you don't think that that's the same as the 510K, okay, because we were going

to do another PMA and we decided not to do another PMA because we found out that our system was very closely related to the technology of the MRI and so we figured on the 510K you need a predicate, and a predicate is something that's similar to yours, and the MRI was.

When we submitted to the FDA the 510K they came back and they said we're sorry to tell you that you're not -- you're the same as the technology in the MRI but they said you're not really the same as what MRI is. And so they said you're more of a DOT, which is the diffused optical tomography. And the optical tomography is what they said we want you to be the only one, you're the new technology now so you have to do a PMA. So they wouldn't give us the 510K because of that so we have to do a PMA. Then we found out we needed funding to go into another PMA.

Q. Okay. To back up, Ms. Grable. You stated that you initially filed the first PMA you said you thought it was in 2001. After some point after 2001 did you decide to file a PMA again?

A. Yeah, but we didn't do it, we did a 510K.

Q. Okay. When did you decide to do a 510K?

A. I think 2010, 11, I'm not sure when it

was. And we have attorney's name was Spalding, Spalding was our advisor for the 510K.

MR. MATHEWS: I believe you're talking about the Law Firm of King & Spalding.

THE WITNESS: Yes, King & Spalding.

(SEC Exhibit No. 34 was marked for identification.)

BY MS. TROTMAN:

Q. Ms. Grable, I'm handing you what's been marked as Exhibit 34. It appears to be a form of a 10-Q filed by Imaging on February 17, 2012.

Please take a moment to review it and let us know when you're ready to proceed.

A. Review this whole thing?

Q. Actually, if you can turn to page 48 of the document.

A. Okay.

Q. If you'll look on page 48 on the second to last paragraph -- I'm sorry, if you'll scan up to the first full paragraph on the page.

MR. MATHEWS: Jenny, I would like her to look at it with a little more detail before she jumps to that provision. Is that all right?

MS. TROTMAN: Sure.

MR. MATHEWS: I want you to note those two things and then answer these questions.

BY MS. TROTMAN:

Q. Ms. Grable, do you recognize this document?

A. Yes.

Q. If you can turn to the last page of the document?

Ms. Grable, is this your signature on page 78?

A. It's my name, it's not my signature.

Q. Is this your electronic signature?

A. Electronic signature.

Q. Ms. Grable, on the page it states pursuant to the requirements of the Securities and Exchange Act of 1934 the registrant has duly caused this report to be signed on its behalf by the undersigned there unto dually authorized. And then below that it says Linda Grable.

Ms. Grable, is this your signature?

A. Of course, yeah, yeah.

Q. Okay. Ms. Grable, if you can turn back to page 48. If you look at the first full paragraph on the page it states in 2005 we initiated the PMA process by designing a new

clinical study protocol and modified intended use which limited the participants in the study to patients with dense breast tissue.

Ms. Grable, is this an accurate statement?

A. Well, the statement is correct. I do not understand the 2005, I wasn't there in 2005.

Q. Okay. So in 2008 when you came back to the company was the PMA process underway?

A. Yes, it was. There was clinical sites.

Q. Ms. Grable, when you signed off on this 10-Q were you aware if it was an accurate statement in 2005 that a PMA process had been started?

A. Yes. I just write 2005 because I wasn't there, but they started it before I came in.

Q. But Ms. Grable, you signed this 10-Q and you understood that the company had initiated a PMA process?

A. Yes, they did.

Q. It's very important for you to allow me to finish my questions before you start to speak. Okay.

So it is true that in 2005 the company had initiated a PMA approval process with the FDA.

Do you understand that?

A. Yeah.

Q. Okay. If you scroll down to the second to last paragraph on the page, the first full sentence states, in September of 2008 we were advised that we did not have sufficient cancer cases to finish the clinical study required for the PMA statistical analysis to be processed by other independent biostatistician.

Ms. Grable, is that an accurate statement?

A. Yes, it is.

Q. Who was the independent biostatistician you're referring to?

A. I don't remember his name.

Q. Did the person work for a company?

A. Yeah, he was associated with a company that they call him CRO's.

Q. They called him what?

A. CRO's.

Q. CRO's?

A. Yeah.

Q. Do you remember the name of the company?

A. No, I don't remember right now, I can get it for you.

Q. Did this biostatistician, did he inform you in writing that you had insufficient cancer cases to complete your clinical trials?

A. You know, I don't remember that at all.

Q. How did he inform you that you had insufficient cases?

A. He wrote in the invoice. And there was no way that we could continue with the clinical sites because it was costing us a lot of money, about $400 a patient that you have to pay plus the hospital plus you have to pay the doctor.

So those cases that we took in there at that time are the cases that we are going to be able to submit to the FDA this time because they never have been used and we have 1,100 cases and 100 cancers.

Q. Ms. Grable, did you produce -- you just previously testified that he submitted something to you in an invoice. Did you produce a copy of that invoice to the Securities and Exchange Commission?

A. It's got to be in one of those things there.

BY MR. DESMET:

Q. We're asking whether you produced it.

A. I didn't read every piece. There is three thousand pages in there.

Q. Is the answer you don't know whether you've produced it?

A. We produced everything. We don't have nothing that -- we have filed back home everything that I sent you we have it back in the office.

Q. The question is whether you have produced the invoice --

A. I don't remember.

Q. I'm sorry, I'm not done.

Whether you produced the invoice or whether you don't know that you produced the invoice?

A. I just don't remember.

Q. Thank you.

MS. TROTMAN: Counsel --

MR. MATHEWS: If it helps we'll look for it or highlight what Bates number it is.

THE WITNESS: Are you asking me the CRO when did he tell us this, that we didn't have enough cancers?

MS. TROTMAN: Yes.

MR. MATHEWS: Wait until she asks a question.

THE WITNESS: No, this is back to the question she asked and I just want to make sure that this is what it is, that she wants to know if the CRO told us that we didn't have enough cancers. I have no idea, I don't remember a thing about that.

BY MS. TROTMAN:

Q. How did you typically communicate with the biostatistician?

A. I didn't.

Q. Who communicated with him?

A. Deborah O'Brian. She was in charge of all the clinical sites and everything for the FDA.

Q. Did this biostatistician, did he prepare a report?

A. Of course. Always did.

Q. Did you produce a copy of that report to the Securities and Exchange Commission?

A. I have no idea. I don't remember. Too much paperwork, we went through a lot of paperwork.

MS. TROTMAN: Counsel, can you look to see if she actually produced a copy and if so if you can identify the Bates numbers?

MR. MATHEWS: Yes.

THE WITNESS: If he gave us a report because we owed him money.

BY MS. TROTMAN:

Q. Do you remember what date the company was informed that it had insufficient cancer cases to file the premarket approval?

A. No.

Q. Did the biostatistician inform Imaging Diagnostic how many additional cancer cases you needed to file --

A. I have --

Q. Ms. Grable, you have to let me finish my question.

Did the biostatistician inform Imaging Diagnostic how many additional cancer cases that you needed to file the premarket approval?

A. I have no idea, I was not in charge of that.

Q. Did you discuss it with Mrs. O'Brian?

A. She probably discussed it with me. She probably -- she was the one who was talking to everyone, she was in charge of the FDA.

Q. But Mrs. Grable, isn't it true that you're the CEO of the company?

A. Makes no difference. If somebody said

that this is my job, let me do my job, you got to let them do their job.

Q. Is it your testimony that you never discussed it with her?

A. I don't know.

Q. Did you disclose to the public anything regarding this biostatistician's conclusions about having insufficient cancer cases to complete the premarket approval?

A. I have no idea.

(SEC Exhibit No. 35 was marked for identification.)

BY MS. TROTMAN:

Q. Ms. Grable, I just handed you what's been marked as Exhibit 35, it appears to be a copy of the 10-K filed by Imaging on September 12, 2008.

Please take a moment to review it and let us know when you're ready to proceed.

A. What do you want me to review?

MR. MATHEWS: Can you just flip through it and indicate whether it's your understanding that is a complete Form 10-K for the year-ending June 30, 2008.

THE WITNESS: How many pages is it?

MR. MATHEWS: It's a 123 pages, a lot of

pages.

THE WITNESS: It's just financial's.

BY MS. TROTMAN:

Q. Ms. Grable, do you recognize the document?

A. Yeah.

Q. If you can turn to the last page of the document on page 123 of 123. If you look on the top right-hand corner it says page 123 of 123.

Ms. Grable, is this your signature on the document?

A. Yes.

Q. Okay. If you could turn to page -- it is page eight of the document. It you could look at the last full paragraph on that page.

A. I can't read it.

MR. MATHEWS: Are your glasses on? Are you able to read it?

THE WITNESS: No. Let me see, I got another pair, let me see my purse. This is for computer glass for computers not for reading but I use them all the time. Yeah.

BY MS. TROTMAN:

Q. Ms. Grable, on the last full paragraph of page eight and the very last sentence it states as

of September 2008 ten clinical sites were participating in the clinical trials and we are on schedule to complete the data collection and submit the PMA application in its entirety in December of 2008.

Ms. Grable, is that statement accurate?

A. What?

Q. Is that statement accurate?

A. Yes.

Q. At the time of this disclosure had you learned that you had insufficient cases to complete the clinical trials and to file the PMA application?

A. I have no idea. I don't remember at all.

Q. Prior to signing this disclosure what steps did you take, if anything, to ensure that the disclosure was complete and accurate?

A. Well, we just we stopped the clinical sites, we had to, we ran out of funds.

Q. Ms. Grable, when did you stop the clinical sites?

A. I don't remember. 2009, I think.

Q. Ms. Grable, this disclosure is from 2008. As of the date of the disclosure what steps did you take --

A. Maybe it was December 2008 because I know that we had to stop. We had ten clinical sites out there and we had to stop and we could just not afford to keeping on doing it. $400 per patient that you're putting through.

MR. MATHEWS: Just listen to her question to the best you can because she's asking you about specific facts at a specific time period of time.

THE WITNESS: I just don't remember that.

MR. MATHEWS: If that's your answer that's your answer and she'll ask you a follow-up question.

THE WITNESS: It's very difficult because a lot of things were going on at that time.

BY MS. TROTMAN:

Q. Ms. Grable, at the time that you made this statement you stated we are on schedule to complete the data collection and submit the PMA application in its entirety in December 2008.

A. Well, it didn't happen.

Q. But was this statement accurate at the time that you signed the disclosure?

MR. MATHEWS: Objection.

THE WITNESS: Yes.

MR. DESMET: I'm sorry, what's the objection?
MR. MATHEWS: She already asked that question.
MR. DESMET: I don't think we got an answer.
MR. MATHEWS: I thought it was one of the first questions that she asked. She said that last statement, is that accurate, and Ms. Grable said yes.
THE WITNESS: I don't really remember that year, that year was very tough, I came back. The company, they had all those clinical sites, ten of them, and then when I came back we had to close all the clinical sites because we didn't have the money.
(SEC Exhibit No. 36 was marked for identification.)
BY MS. TROTMAN:
Q. Ms. Grable, I'm handing you what's been marked as Exhibit 36. It appears to be a copy of a form S-1 filed by Imaging Diagnostic on September 22, 2008.
Please take a moment to review and let me know when you're ready to proceed.

MR. MATHEWS: I know you're going to want to ask some questions on this exhibit but after that can we take a break?
MS. TROTMAN: Sure.
BY MS. TROTMAN:
Q. Ms. Grable, if you can turn to the last page of the document, please. Is this your signature?
A. Yes.
Q. If you could then turn to the page -- if you look on the top right-hand corner it says page 8 of 102. If you'll look at the first full paragraph on that page.
A. The same thing that was in the other one.
Q. Ms. Grable, if you'll look at the last sentence of the first full paragraph it states, as of September 2008 ten clinical sites were participating in the clinical trials and we are on schedule to conclude the data collection and submit a PMA application in its entirety to the FDA in December 2008.
Was that statement accurate at the time this S-1 was filed?
A. Yes.
Q. Ms. Grable, what steps did you take to

ensure that that statement was accurate?
A. At that time it was accurate.
BY MR. DESMET:
Q. But the question was what steps did you take to ensure that that was accurate at the time?
A. Well, at that time it was accurate.
Q. We're asking you about the steps taken, if any, to verify that the statements in the filing were accurate.
A. I don't know what steps took. All I know is right after that we had to stop everything because we run out of funds.
BY MS. TROTMAN:
Q. Ms. Grable, at the time that you filed this S-1 had you learned from your biostatistician that you had insufficient cases to complete the clinical trials and file the PMA application?
A. Like I said before I don't know, I don't remember that. I have to look his records up. I don't know, you know. Actually, see, I'm not -- I was not even in charge of the FDA approval stuff. We had the person that was in charge of the FDA and that's who they talked to all the time, you know.
Q. Ms. Grable, isn't this -- wasn't it your

signature at the back --
A. Yes, it is my signature.
Q. So if it was your signature what steps did you -- whether or not whoever else was responsible, what steps did you take to ensure that this was accurate?
A. I don't remember. I'm sorry.
MS. TROTMAN: We can go off the record now, it's 1:34 p.m.
(Whereupon, a recess was had.)
MS. TROTMAN: We are back on the record at 1:45 p.m.
BY MS. TROTMAN:
Q. Ms. Grable, did we have any substantive discussions during the break?
A. Yes. Did we have conversations with who?
Q. Did we have any substantive conversations during the break regarding the case at hand?
A. No, I just talked to Allan.
Q. Okay. Ms. Grable, who did you speak with during the break?
A. Allan.
Q. Who is Allan?
A. Allan Schwartz.
Q. And what did you say to Mr. Schwartz?

A. I was asking him about the CRO, I don't remember anything about what he was doing. Allan say he doesn't remember, he's got to get the information.

BY MR. DESMET:

Q. I'm sorry, who is the CRO?

A. CRO is the guy she's talking about that made all the comments about we didn't have enough cancers.

Q. What does CRO stand for?

A. I knew you were going to ask me that. We call them CRO all the time in this business. I don't know what it stands for.

BY MS. TROTMAN:

Q. Did your have any other discussions with Mr. Schwartz during the break?

A. No, that's it. I got very upset about that one statement there because I don't remember --

MR. MATHEWS: Linda, let's wait until she asks a question before you carry on.

BY MS. TROTMAN:

Q. Ms. Grable, what were you going to say?

A. I was going to say that the statement in that page I was very surprised because I knew that

someone had said, I don't it was the CRO, that we didn't have enough cancers but I think we made that decision so I was shocked when I saw that.

Q. Mrs. Grable, do you review the public filings before they're filed?

A. Yes, I do.

Q. So you understand that the original statement that I'm referring to, the statement that was in the -- in Exhibit 34 that you had -- that you didn't have sufficient cancer cases to finish the clinical study were prior to the PMA statistical analysis to be processed by the company's independent biostatistician.

Do you remember that statement?

A. Uh-huh.

Q. That shouldn't come as a shock to you; should it, it's in your public statement. Correct?

A. I don't think it was the CRO that said that is my problem. I know it's in the 10-K.

Q. Ms. Grable, are you trying to state that the statement in your -- in Exhibit 34 in the 10-Q filed for December 30, 2011, is inaccurate?

A. Well, what I remember of all that, I don't remember it was the CRO, I thought it was me

made the decision to stop because we didn't have enough cancers and we had to get more cancers.

Q. Ms. Grable, my question was are you trying to testify here today that this statement in Exhibit 34 that in September 2008 we were advised we did not have sufficient cancer cases to finish the clinical study required for the PMA statistical analysis to be processed by our independent biostatistician; is that statement inaccurate?

A. I don't know.

BY MR. DESMET:

Q. Is that the first time today that you see that statement?

A. No, I saw that statement before in my office but that was in 2008. And then in 2011 because it was 2000 -- it was okay then. But my biggest problem that I have is that I don't really remember in 2008 if it was the CRO that said that, that we didn't have enough cancers because we thought at the time we were getting a lot of cancers. Out of 1,100 patients we had a hundred cancers which is a lot.

BY MS. TROTMAN:

Q. Ms. Grable, going back to an earlier

question, did you have any substantive conversations with the staff during the break?

A. When?

Q. During the break that we had.

A. I had a conversation with Allan.

Q. Okay. But my question is did you have any substantive conversations with the staff? So did you have any conversations with me, with Mr. Desmet, or with Mrs. Strandell?

A. No.

Q. Thank you.

MR. MATHEWS: Thierry, you mentioned in the hallway, can you make a statement about the earlier transcript?

MR. DESMET: Sure. Just for the record, the earlier transcript will not be able to be certified by the court reporting company so this is the only transcript.

MR. MATHEWS: Thank you.

THE WITNESS: When did we have conversations with them?

MR. MATHEWS: The SEC typically wants to know is did they have a discussion with the staff that should be reflected on the transcript, and she will ask that every time

we take a break to try to ensure that there was no side discussions that took place that weren't recorded by the court reporter.

THE WITNESS: You have to understand, I've never been in a meeting like this.

MR. MATHEWS: That's fair. It's the way they do business.

THE WITNESS: I guess. I'm glad it's them, not me.

(SEC Exhibit No. 37 was marked for identification.)

BY MS. TROTMAN:

Q. Ms. Grable, I'm handing you what's been marked as Exhibit 37. It appears to be a copy of a Schedule 14A filed by Imaging Diagnostic on September 29, 2008.

Please take a moment to review it and let me know when you're ready to proceed.

MR. MATHEWS: She'll ask you questions on it and your testimony is based upon your knowledge. Okay.

BY MS. TROTMAN:

Q. Ms. Grable, if you could turn to the last page of the document?

A. What page?

Q. The last page. Ms. Grable, who is Timothy Hanson?

A. That was the CEO.

Q. When was he the CEO?

A. 2003 through 2008.

Q. What day in 2008 did he resign?

A. April.

Q. Ms. Grable, if Mr. Hanson resigned in April and this document was filed in September why is Mr. Hanson a signatory on the document?

A. I don't know. Honestly.

BY MR. DESMET:

Q. Who was the CEO in September of 2008?

A. Me.

Q. Do you have any recollection of filings being prepared or filed without your knowledge?

A. No. I don't know. I was surprised when I saw that name because he shouldn't have been in here at all.

BY MS. TROTMAN:

Q. Ms. Grable, is it possible that someone at Imaging Diagnostic filed the forms with Timothy Hanson's signature without reviewing it?

A. It's got to be -- I don't know.

MR. MATHEWS: Just listen to the

question.

BY MR. DESMET:

Q. Do you understand the question?

A. No.

MR. DESMET: Court reporter, please reread the question.

(Whereupon, a portion of the record was read by the reporter.)

THE WITNESS: Well, I don't know if it was without reviewing it, all I know is I don't know how Timothy Hanson's name is in that paperwork, it had to be Allan, Allan Schwartz must have done it.

BY MR. DESMET:

Q. Why is that?

A. Because he's the one that does all the filings in the company, okay. And my name is not on here, I didn't sign it. I don't know what happened, honestly. This is a big surprise to me when I saw his name.

BY MS. TROTMAN:

Q. Ms. Grable, if you can turn to page two of the document. If you look at the right-hand corner. I'm sorry, page three.

Mrs. Grable, isn't it true this is your

signature on page three of the document?

A. Yes.

Q. And if you look at the second full paragraph on page three of the document it states, our number one priority is the submission of our PMA applications to the FDA which we expect to occur in December 2008. We have outsourced additional experts as needed to expedite this process.

Ms. Grable, was this statement accurate when this document was filed?

A. Yes.

Q. As of the date of this document had you learned from the independent biostatistician that you had insufficient cases to complete the clinical trials and to file the PMA application?

A. I don't remember when that happened but I know that at one time we could not finish it, there was no way.

Q. Ms. Grable, in the second sentence that I read to you it stated that we have outsourced additional experts as needed to expedite this process.

What experts are you referring to there?

A. That would have to be Spalding, the

attorneys.
Q. And is it King & Spalding?
A. Yes.
Q. Besides King & Spalding did you have any additional experts that you're referring to there?
A. No, because what happened with them, they have their whole office, it's FDA approved, and so they have their only statistician, their own clinical people, they have everything you need on one area there. We paid a lot of money for that.
Q. So the independent biostatistician that you're referring to, was he employed by King & Spalding?
A. Yes.
Q. Do you remember his name now?
A. Her name. It's a girl's name. She did a lot of the work. This is her expertise, you know.
Q. Was she an attorney or was she the independent biostatistician?
A. She is a biostatistician but she works with Spalding.
Q. Okay. Ms. Grable, prior to filing this disclosure what steps did you take to ensure that the disclosure was complete and accurate?
A. I have no idea. I don't want to give you

an answer if I don't remember at all.
(SEC Exhibit No. 38 was marked for Identification.)
BY MS. TROTMAN:
Q. Ms. Grable, I'm handing you what's been marked as Exhibit 38. It appears to be a copy of a form S-1 filed by Imaging Diagnostics on October 28, 2008.
Please take a moment to review it and let us know when you're ready to proceed.
A. Yes.
Q. Ms. Grable, do you recognize the document?
A. Yes.
Q. What is it?
A. S-1.
Q. If you turn to the last page in the document. Page 123 of 123. Is this your signature?
A. 123. I got 102.
Q. I'm sorry, I'm on the wrong page. 102. If you turn to the last page of the document, 102 of 102. Is that your signature?
A. Yeah.
Q. If you turn to page -- if you look on the

top right-hand page, that's page 8 of 102. If you look at the first full paragraph on that page.
A. Okay.
Q. If you look at the very last sentence on that page it states, as of September 2008 ten clinical trials were participating in the clinical trials and we are on schedule to complete the data collection and submit the PMA application in its entirety to the FDA in December 2008.
Is that statement accurate at the time this document was filed?
A. Yes.
Q. Ms. Grable, as of the date of the filing of this document had you learned that you had insufficient cases to complete the clinical trials and to file the PMA application?
A. I don't know. I don't remember.
Q. Ms. Grable, prior to filing this disclosure what steps did you take, if any, to determine that the disclosure was complete and accurate?
A. I don't remember. How can I answer that question? I don't remember the whole thing.
(SEC Exhibit No. 39 was marked for identification.)

BY MS. TROTMAN:
Q. Ms. Grable, I've handed you what's been marked as Exhibit 39. It appears to be a copy of a Schedule 14A filed by Imaging Diagnostic on October 23, 2007.
Please take a moment to review it and let us know when you're ready to proceed.
Ms. Grable, can you turn to the last page of the document? Is there a reason why Mr. Hanson would have signed this document?
A. No.
Q. As of the date in October of 2008 was Mr. Hanson still the chief executive officer of Imaging Diagnostic?
A. No.
Q. Ms. Grable, it's very important that you wait until I finish my question before you answer.
Do you know why Mr. Hanson would have signed this document?
A. I have no idea.
Q. Ms. Grable, if you could turn to --
A. I know, page something that probably has my signature on it. It's crazy. It's true.
Mr. Allan Schwartz, smarty pants.
Q. If you could turn to page 4 of 52.

A. Page four?
Q. Yes. We're going to look at the second full paragraph on that page.
A. I only have five and then six. I don't have four. Four is here.
Q. Ms. Grable, do you see page four in your copy?
A. Yeah.
Q. Okay. If you could look at the second full paragraph on that page. Actually, first, is this your signature on the bottom of page four?
A. Yes.
Q. If you look at the second full paragraph on that page it states our number one priority is the submission of our PMA application to the FDA which we expect to occur in December 2008. We've outsourced additional experts as needed to expedite this process.
Was this statement accurate in October 2008 when you filed the document?
A. Yes, it was.
Q. Ms. Grable, at the date that you filed this document had you learned from your independent biostatistician that you had insufficient cases to complete the clinical trial?

A. I don't know. I don't remember anything like that. The statistician was working with Deborah, wasn't working with me, and all the things that she gave Deborah she gave to Allan.
Q. Ms. Grable, what steps did you take to ensure that this document was complete and accurate prior to its filing?
A. I've looked it over and it was okay as far as I was concerned.
Q. And when you state here we have outsourced additional experts as needed to expedite this process, what experts are you referring to?
A. Spalding, King & Spalding.
Q. Besides King & Spalding are there any other experts you're referring to here?
A. No. Everybody was from the office of King and Spalding, they had everybody in there.
Q. Ms. Grable, what was the basis for stating that it was the company's intention to file the PMA application in December 2008?
A. Because they had collected enough images that probably they could do it.
BY MR. DESMET:
Q. Who is they?

A. Well, when we put the clinical sites out, the ten clinical sites, we did a lot of scanning of patients. And Deborah was in charge of making sure that the patients were being done and that we were paying all the clinical sites, and so we sent everything to King & Spalding. The same thing that we sent you here, production papers, we used to send everything that we got from the clinical sites and all the scanning everything was sent out to Spalding. So Spalding took it, gave it to the statistician, the statistician read it, and then it came back to Spalding and Spalding was the one that submitted everything to the FDA.
Q. So the record is clear, when you say we you mean Imaging?
A. Yes.
Q. When you say they you mean --
A. Spalding.
Q. King and Spalding?
A. Yeah. They got paid 650 an hour. Yes.
(SEC Exhibit No. 40 was marked for identification.)
BY MS. TROTMAN:
Q. Ms. Grable, I've handed you what's been marked as Exhibit 40. It appears to be a copy of

a Schedule 14A filed by Imaging Diagnostic on October 30, 2008.
Please take a moment to review it and let us know when you're ready to proceed.
A. This is ridiculous.
Q. Ms. Grable, if you could turn to page 51 of 51 of the document.
A. 51 of 51?
Q. Yes. Is this document signed by Timothy Hanson?
A. It's right there.
Q. Is that a yes?
A. Yes.
Q. In October of 2008 was Mr. Hanson employed by Imaging Diagnostic?
A. No.
Q. Do you know why Mr. Hanson signed this document?
A. Probably Allan made a mistake.
Q. If you could turn to page 4 of 51. If you could look at the second full paragraph on that page. It states are our number one priority is the submission of the PMA application to the FDA which we expect to occur in December of 2008. We have outsourced additional experts as needed to

expedite this process.

Was this statement accurate in October 2008 when the document was filed?

A. Yeah, uh-huh.

Q. By uh-huh you mean yes?

A. Yes.

Q. It's important for the court reporter that you actually state yes or no.

BY MR. DESMET:

Q. What's the basis for you to say that this was accurate at that time?

A. Because we were doing that at that time. We had the King & Spalding in charge of all the outside sources to do the PMA and we were collecting all the images and giving them to King & Spalding and he will give them to the statistician. The same thing that was in the other places we were doing, you know, it was not changing.

BY MS. TROTMAN:

Q. Ms. Grable, isn't it true that later documents state that in September 2008 you were aware that you had an inadequate number of cases to complete the clinical trials and file the PMA after September 2008?

A. But you see, I don't remember that part of the -- I don't remember. I've got to go back in my office and look at all the things that we did in December, and who gave us that, it had to be King & Spalding or the other CRO, I have no idea. I mean, it's kind of hard.

We were involved in so many things at the time, with the FDA, with China, and it was just one of those things where the clinical sites are all by themselves, the other people organized the clinical sites so we never even get involved with the clinical sites until King & Spalding sent us a report.

Q. Ms. Grable, isn't it true that in your disclosures you made disclosures regarding your clinical trials and told the investing public that you would be able to file your PMA application by December 2008? What basis did you have to tell the public that that was an accurate statement if you weren't involved in the clinical trials like you just testified?

MR. MATHEWS: Objection. Do you understand the question?

THE WITNESS: Yeah. But the biggest thing is that we knew, you know, we were

sure we were going to do that in December because we had so many cancers. We found 55 cancers within I think the first 10 clinical sites we have 55 cancers. The FDA only wants 125 so we were sure that we were going to get the rest because it was a long time to get the rest because we had clinical sites that were doing like 50 a day of patients, you know. And 50 a day that will give you at least one or two a day. If you count that from October to December we were sure that that was going to happen.

BY MS. TROTMAN:

Q. So Ms. Grable, isn't it true that by your testimony that you just testified that you didn't actually have sufficient clinical cases to complete the PMA application?

A. I didn't say that.

Q. Ms. Grable, isn't it true that you just testified that you only had approximately 50 cancer cases and that you needed almost double that?

A. Well, yeah, but we still had ten clinical sites doing 50 patients a day. Count it. 50 patients, 27 days a month, okay, you're bound to

get another 125, 150 cancers. Right now we've got in the office from those clinical sites a hundred cases and we finished those by November. The reason why we had to stop was not because of the clinicals, it was because we ran out of money, we were paying too much money to the clinical sites and to King & Spalding.

Q. When did you run out of money?

A. It was really very quick.

Q. What month?

A. Actually it was around November.

Q. November of 2008?

A. Yeah.

Q. So in November 2008 you had insufficient funding to continue the clinical trials?

A. (Shakes head.)

Q. Is that a yes or a no?

A. Yes.

Q. So if you had insufficient cases to complete the clinical trials you would not have been able to file the application with the FDA. Is that correct?

A. Correct that way, but we were expecting to get funding in about two or three days from a guy in China and he just turn around and said no,

you know.

(SEC Exhibit No. 41 was marked for identification.)

BY MS. TROTMAN:

Q. Ms. Grable, I'm handing you what's been marked as Exhibit 41. It appears to be a copy of a Form 10-Q filed by Imaging on November 12, 2008. Please take a moment to review it and let me know when you're ready to proceed.

A. It's the same thing.

Q. Ms. Grable, do you recognize the document?

A. Yes.

Q. And what is it?

A. Q.

Q. 10-Q?

A. Uh-huh.

Q. Yes? You have to say yes or no.

A. Yes.

Q. If you turn to the last page of the document, Ms. Grable, is this your signature?

A. Yes.

Q. If you could turn to page 23 of 32. If you look on the top right-hand corner. If you can go to the last full paragraph on that page. And

if you look at the last sentence it states, as of November 2008 ten clinical sites were participating in the clinical trials and we believe we are on schedule to complete the data collection and submit the PMA application in its entirety in December 2008.

Ms. Grable, was this an accurate statement when this document was filed?

A. Yes.

Q. What basis did you have in November 2008 to say that you were on schedule to complete the data collection and file the PMA application in December of 2008?

A. We had a lot of clinical sites, a lot of patients were going through, putting through a lot of patients.

Q. Did you have sufficient cancer cases in November 2008 to complete the clinical trials?

A. I don't remember. I think we did. We had a lot, in other words, but we still have ten clinical sites.

Q. Ms. Grable, had you learned previously that you had insufficient cancer cases --

A. I don't remember and I don't know.

Q. Ms. Grable, it's important that you allow

me to finish my questions before you answer.

A. It's the same question you give me from the beginning, everything is the same.

BY MR. DESMET:

Q. It's a different document so you need to let Ms. Trotman finish her question, please.

A. Okay.

BY MS. TROTMAN:

Q. Ms. Grable, had you learned in September of 2008 that you had insufficient cancer cases by an independent biostatistician to complete the clinical trials?

A. I don't remember.

Q. Ms. Grable, in November of 2008 did you have sufficient funding to complete the clinical trials and submit the PMA application?

A. I don't think so.

Q. Did you disclose that in this document?

A. I think we did towards the end. Whalehaven was giving us the financing.

Q. So you had sufficient funding to complete the PMA application as you stated here and file it by December of 2008?

A. Yeah, but then they went out of funds real quick.

Q. When did you run out of funds?

A. I don't remember that. I have to go back and look at it, I know. But we were given $400 thousand and the problem was that we didn't expect them to do that many patients, and the patients it was like $400 a patient putting through, and it was you run out of money like that so quick, you put 50 patients a day, a lot of money.

BY MR. DESMET:

Q. Just to make sure that I follow you, are you saying that at the time that document was filed the company had sufficient funding or did not have sufficient funding?

A. I think we had sufficient funds from Whalehaven. I remember the guy gave us $400 thousand, he was supposed to give us another 400 thousand but he never came through.

BY MS. TROTMAN:

Q. When did he give you $400 thousand?

A. I have to look it up. I don't remember the exact date. It's difficult because I was dealing with Whalehaven at the time and -- I was dealing with Whalehaven and Steve Hicks.

Q. Prior to signing and filing this disclosure what did you do, if anything, to ensure

that the disclosure was complete and accurate?
A. I reviewed it.
Q. Besides reviewing it what did you do?
A. I don't know. I don't remember.
(SEC Exhibit No. 42 was marked for identification.)
BY MS. TROTMAN:
Q. I am handing you, Ms. Grable, what's been marked as Exhibit 42. It appears to be a copy of a form S-1 filed by Imaging Diagnostic on December 30, 2008.
Please take a moment to review it and let us know when you're ready to proceed.
A. Okay.
Q. Ms. Grable, do you recognize this document?
A. Yeah.
Q. What is it?
A. S-1.
Q. If you could turn to the last page of the document, page 112 of 112.
Ms. Grable, is this your signature?
A. Yes.
Q. Ms. Grable, if you could now turn to page seven of this document. It's seven of 112.

If you look at the top right-hand corner.
If you look at the first paragraph on the page it's not a complete paragraph, it states, we had planned on submitting our PMA application to the FDA in December of 2008. However, due to unforeseen delays in data collection our expected filing date has been pushed out into the first quarter of 2009. Do you see that?
A. Yeah.
Q. Ms. Grable, what are you referring to when you say unforeseen delays in data collection?
A. Because it was just it was a lot of patients that we had to put through and all of a sudden we just couldn't get 50 patients through in a day because, it was costing us 400 per scan.
Q. Ms. Grable, is the reason you didn't finish the data collection because you had inadequate funding to pay the patients?
A. Yeah.
Q. Did you disclose that to investors?
A. Why we would disclose that to investors anyway?
BY MR. DESMET:
Q. The questions is not why the question is did you?

A. I don't know.
Q. Do you recall disclosing this to investors?
A. The only thing you can disclose is to the 8-K, 8-K, and I know if he did 8-K on that or not. I think we did but I'm not sure so I don't really want to answer that question like that.
BY MS. STRANDELL:
Q. Did you disclose in any other forms other than an 8-K any other filings that the funding was insufficient to complete the data collection?
A. Yes, we had, we had done that.
Q. At this period December 2008 –
A. I don't know about that period. I know when we had the – 2009, you know, went up to 2009, 2010, we did disclose the fact that we were running out of funds and we really couldn't continue with the PMA until such time as we received the large funding that we were expecting because we had the group, Chinese group, that was working with us and they were going to give us $10 million so we could get the PMA finished but they were taking so long and then they just somehow they changed their mind.
Now we got another Chinese group right

now working on the same thing.
Q. But as December 2008 you don't recall disclosing to investors that he –
A. I don't remember.
Q. Let me finish. As of December 2008 you don't recall disclosing to investors that the unforeseen delays was related to funding?
A. I don't remember because usually we do, you know. But I don't remember that time.
BY MR. DESMET:
Q. At the time of this filing did you have any support for describing the delays of the unforeseen?
A. What do you mean by support?
Q. Any basis?
A. I still don't understand the question.
Q. Okay. In this filing in front of you, you described these delays as being unforeseen delays. What about these delays were unforeseen?
A. This is what I said, the unforeseen delays were that we couldn't continue doing 50 patients a day in the clinical sites.
Q. Right. But didn't you know for awhile that you were running out of money?
A. Not really because we had, like I said,

we had two groups that we were talking to for funding and we were -- and let me tell you, we were very sure that the Chinese was coming with the $10 million very, very quick.

Q. Who are the Chinese?

A. The Chinese group from Hong Kong.

Q. Who is that?

A. There were -- I got their names in the office, I can give them to you.

Q. I'm asking you for the names, do you know the names?

A. One of them was Wong, something Wong, and the other guy was -- the one that the finder for them was Kevin, Kevin is a CPA in California.

Q. Who is Kevin?

A. Kevin Chung, he's the guy that was trying to get the group together to give us the $10 million. And Kevin is the one that found another group just now in China that we're working with right now for the 10 million.

Q. So the funding from this Chinese group fell through before this filing was filed. Is that what you're saying?

A. Yeah.

Q. How long before the filing was filed?

A. You know, it was like -- I don't know. You know, I don't remember. I think it was either the last week of in October or maybe the second week in November, I'm not sure. We were still doing the cases, we were still scanning but then we had to stop because when they came back and said no, we can't do it because we have -- they were doing another project.

Q. And what was the basis for relying on this $10 million from the Chinese?

A. It was so sure, let me tell you, really sure, you have no idea.

Q. I'm asking for the basis.

A. Well, they sign all the papers.

Q. What papers?

A. Security -- what do you call that? Security something paper.

Q. I'm sorry, say that again?

A. I don't remember the name. Bob McCauley did it. What is it called, that paper?

MR. MATHEWS: Is it a letter of intent?

THE WITNESS: No, no, no, that was past. The final papers is something security paper that they have to sign, that's what they tell you everything they're going to do and

at what time they want to do it at. Every time we do something like that they sign that the money comes, you know. But somehow something happened to them and they got involved in another project and somehow the project did not -- you know, when you're trying to get funding it's very difficult because you don't know the people, the people really tell you one thing. And they have -- we got really disturbed because they said they have the right to terminate the whole thing no matter what, you know.

BY MS. TROTMAN:

Q. Ms. Grable, at the time of this filing did you have sufficient cancer cases to submit the PMA to the FDA?

A. We had a hundred at that time.

Q. And how many did you need to submit --

A. 125.

Q. So isn't it true you had insufficient cases to submit the PMA application to the FDA at the day of this filing?

A. Well, we thought we were going to have it.

Q. Ms. Grable, that's not my question. My

question is, at the date of this filing did you have insufficient cancer cases to submit the PMA application to the FDA?

A. I don't know, I don't remember that.

Q. Ms. Grable, isn't it true that you just testified that you had a hundred case?

A. Yes, I do have a hundred cases still.

Q. Mrs. Grable, isn't it true that you testified you needed a 125 cases?

A. Yes.

Q. So isn't it true, Ms. Grable, you had insufficient cancer cases to submit the PMA application to the FDA at the time of this filing?

A. If you say so, I don't know, I just thought we were going do it by December if we had the funding.

Q. Ms. Grable, that's not my question.

A. I know what your question was.

Q. Ms. Grable, my question was --

A. I can't answer the question.

Q. Why can't you answer the question?

A. I can't because I don't remember what the circumstances happened at the time that the whole thing went.

Q. Ms. Grable, that's not my question. My

question was at the time --
A. I can't answer that question.
Q. Mrs. Grable --
A. I'm sorry.
Q. Ms. Grable, allow me to ask a question.
A. You already did.
Q. Mrs. Grable, please allow me to ask a question.
At the time of the filing isn't it true that you just testified that you had 100 cases and you needed 125 cases? Is that correct?
A. (No response.)
Q. Mrs. Grable, is that correct?
A. I don't know because this whole thing is -- I don't know. You know, just, I mean, you do your best, you can do your best and you try and you know you're going to get it done --
Q. Mrs. Grable, that is not my question. You have to answer the questions that I ask you. You're obligated by law to answer the questions that I ask you.
MR. MATHEWS: She did answer the question. She provided the answer twice, you don't like the answer she gave, she said she couldn't give you a --

MS. TROTMAN: It's a yes or no question. It's yes or no.
BY MS. TROTMAN:
Q. Mrs. Grable, did you not just testify --
A. No.
Q. Okay. Allow me to answer the question -- ask the answer before you answer. Do you understand?
A. Okay.
Q. Did you not just testify that you had 100 cases and that you needed 125 cases for the FDA to file the PMA application? Is that true?
A. Yes.
Q. Isn't it true, Mrs. Grable, that you had insufficient cases then to file the PMA application with the FDA?
A. No.
Q. How is that not true?
A. Because we were going to take the 100 cases to the FDA and they probably would have had it approved, okay. We just did not have enough money to keep the attorneys going and the FDA going.
BY MR. DESMET:
Q. Did you disclose that to the investing

public?
A. I think we did.
Q. When?
A. I don't know. I have to look it up because I don't remember but I know that we always did -- one of the things we did all the time was press releases about everything.
Q. Well, this paragraph that's in front of you do you see anything in there about having run out of money and not having the money to keep going?
It's right there, take a look at it.
A. This one here?
Q. Yeah, the one that Ms. Trotman just showed you.
A. I can't remember what happened at the time is my problem. Yeah, but the thing here that says that first there can be no assurance that we will attain the PMA, that the CTLM will achieve market acceptance or that's sufficient revenues will be generated from sales of the CTLM to allow to operate profitably.
Q. That wasn't my question though. My question was, does it say anything about running out of money in that section?

A. I don't think so.
Q. Okay.
BY MS. TROTMAN:
Q. Ms. Grable, what basis in that same paragraph you state you expect the filing date to be pushed in the first quarter of 2009. What basis did you have to tell the investors that the filing would be filed in the first quarter of 2009?
A. What do you mean the filing?
Q. The PMA application, what basis did you have to tell investors that the PMA application would be filed in the first quarter of 2009?
A. Because that's what we thought we were going to be able to do.
Q. And what basis did you have --
A. Because we were getting funding and we had all the -- all the cases almost done.
Q. Mrs. Grable, isn't it true that you just testified that your funding had fallen through?
A. You mean following through. We didn't have -- the $10 million was going to take us to the PMA and the marketing of the CTLM in the domestically.
Q. Mrs. Grable, didn't you just testify that

you hadn't received the $10 million?
A. Yes, I did, but we had other money that we were looking at.
Q. So Mrs. Grable, back to my question, what was your basis for telling investors that you were going to file the PMA application in the first quarter of 2009?
A. Because we were getting funding.
Q. From who?
A. Steve Hicks, Whalehaven, or the Chinese people. We had three people that we always -- two or three people that we need to get money from just in case one doesn't go through then maybe -- you know, it's like throwing something in the wall one of them is going to stick.
BY MR. DESMET:
Q. So which one ended up sticking?
A. I think we got Whalehaven.
Q. How much?
A. 400 thousand.
Q. When was that?
A. That was someplace in 2009.
Q. What's the name; is it White Haven?
A. Whalehaven.
Q. What is the name of Whalehaven's

principles?
A. I don't have it with me right now. They're out of New York.
BY MS. TROTMAN:
Q. Did you receive the funding from Whalehaven in the first quarter of 2009?
A. From Whalehaven?
Q. Yes.
A. Yes.
Q. What month?
A. I don't remember what month.
Q. But you can testify that you do remember you received it -- Mrs. Grable, allow me to finish my question.
A. Okay.
Q. Can you testify today that you received the funding from Whalehaven in the first quarter of 2009?
A. I think so. I don't remember the dates. It's in one of that I just read too about Whalehaven and all the names of the people are in there.
(SEC Exhibit No. 43 was marked for identification.)
BY MS. TROTMAN:

Q. Ms. Grable, I'm handing you what's been mark as Exhibit 43. It appears to be a copy of a Form 10-Q filed by Imaging Diagnostic on February 9th of 2009.
Please take a moment to review it and let me know when you're ready to proceed.
A. What page?
Q. I haven't directed you to a page. If you can turn to the last page in the document. It's page 38 of 38 on the top right-hand corner.
Ms. Grable, is this your signature?
A. Yeah.
Q. Do you recognize this 10-Q?
A. 10-Q.
Q. Ms. Grable, if you can turn to -- if you look at the top right-hand corner it says page 27 of 38.
A. 27 of 38?
Q. Yes.
A. Okay.
Q. If you could look at the last full paragraph on the page and the last sentence. It states, as of February 2009 ten clinical sites are participating in the clinical files and we believe we are on schedule to complete the data collection

and submit the PMA application in its entirety during the quarter ending June 30th of 2009.
Do you see that statement?
A. (Shakes head.)
Q. Ms. Grable, you have to answer yes or no?
A. Yeah.
Q. Ms. Grable, isn't it true in the last exhibit that we looked at it stated that you would file the PMA application within the first quarter of 2009?
A. Yeah.
Q. And now this document is stating that you're going to file the PMA application during the quarter ending June 30th of 2009, the second quarter?
A. Yes.
Q. Ms. Grable, what occurred to cause the delay?
A. I don't remember.
Q. What basis did you have to tell the investing public that you were going to file the PMA application in the quarter ending June 30, 2009?
A. I just don't remember. I don't remember. There were too many things happening in 2009.

Q. Ms. Grable, what steps did you take, if any, to ensure that the disclosures in this document were complete and accurate prior to its filing?
A. I read them.
Q. Besides reading it what other steps did you take?
A. No other steps.
Q. As of the date of this filing had you completed the data collection necessary for the PMA application?
A. No.
Q. How many -- as of the date of the filing how many cancer cases had you collected?
A. A hundred.
Q. Had you not collected any additional cancer cases since the date of the last filing?
A. I don't think so.
Q. And why not?
A. We had to stop all the clinical sites.
Q. Did you tell investors in this filing that you had stopped the clinical trials?
A. I suppose so.
Q. Ms. Grable, isn't it true that it states here as of February 2009, ten clinical sites are

participating in the clinical trials and we believe we are on schedule to complete the data collection?
A. You're talking about June, you're not talking about February in here.
Q. Ms. Grable, isn't it true that your statement says, as of February 2009 ten clinical sites are participating in the clinical trials and we believe we are on schedule to complete the data collection? Isn't that what the document states?
A. Yes.
Q. Ms. Grable, at the time in February 2009 did you have -- were your clinical sites still operational?
A. What date?
Q. February 2009.
A. Yes, they were operational.
Q. When did the clinical trials cease being operational?
A. I don't remember that. I have to go back to my office and look at all my records.
(SEC Exhibit No. 44 was marked for identification.)
THE WITNESS: I just don't remember this stuff. It's too many paperwork you have to

go through. 76 years old, you can't expect somebody to remember everything.
MR. MATHEWS: Do the best you can.
BY MS. TROTMAN:
Q. Ms. Grable, I've handed you what's been marked as Exhibit 44. It appears to be a copy of a prospectus filed by Imaging Diagnostic on March 10 of 2009.
Please take a moment to review it and let me know when you're ready to proceed.
A. What is this?
Q. Prospectus.
A. That's for the equity fund.
Q. Ms. Grable, do you recognize this document?
A. No. Not right now.
Q. If you can, it's page five of 153, if you look on the top right-hand corner.
A. 501?
Q. Five of 153. If you look at the last paragraph on that page. If you look in the middle of the paragraph it states, we had planned on submitting our PMA application to the FDA in December of 2008, however, due to unforeseen delays in data collection our expected filing date

has been pushed into the second quarter of 2009.
Do you see that statement?
A. Uh-huh.
Q. Was that statement accurate as of the date of the filing?
A. Yes.
Q. Since the prior exhibit we had looked at which was Exhibit 43, a month had filed since you filed this new disclosure. Had you completed the data collection for the PMA application?
A. No.
Q. How many cases, cancer cases had you collected as of the date of this prospectus?
A. A hundred.
Q. Why had you not collected any additional cases?
A. I don't know. I have no idea.
Q. On what basis did you state that your PMA application would be filed by the second quarter of 2009?
A. I don't remember. You have to get somebody else in here to answer those FDA questions.
Q. Ms. Grable, prior to signing and filing this disclosure what did you do, if anything, to

ensure that the disclosure was complete and accurate?
A. I don't remember.
(SEC Exhibit No. 45 was marked for identification.)
BY MS. TROTMAN:
Q. Ms. Grable, I'm handing you what's been marked as Exhibit 45. It appears to be a copy of a Form 10-Q filed by Imaging Diagnostic on May 11, 2009.
Please take a moment to review it and let us know when you're ready to proceed.
A. Yes.
Q. Ms. Grable, do you recognize this document?
A. Yeah.
Q. If you could turn to the last page in the document, which is page 37 of 37.
Is this your signature on that page?
A. Yes.
Q. Ms. Grable, if you could turn back to what is page 26 of 37 if you're looking at the top right-hand corner. If you look at the first paragraph on that page and the very last -- because the last two sentences it states, as of

May 2009 ten clinical sites have participated in the clinical trials and we believe we have sufficient clinical data to support our PMA application. While we anticipate the remaining PMA process consisting of the reading phase, the statistical tabulation phase and this submission of the application should be completed in 2009 these milestones cannot be met unless we obtain sufficient financing through the sale of equity or debt securities.
Do you see that disclosure?
A. Yes.
Q. Ms. Grable, as of the date of the filing had you completed -- did you have sufficient clinical data to support your PMA application?
A. No.
Q. So Ms. Grable, why did you state here that you did?
A. I didn't state that. I still said in 2009 milestones cannot be met unless we obtain sufficient financing through the sale of equity or debt security.
Q. Ms. Grable, isn't it true that the first statement that I read to you states, as of May 2009 ten clinical sites have participated in the

clinical trials and we believe we have sufficient clinical data to support our PMA application?
Mrs. Grable, is that not an accurate statement?
A. I guess it's not.
Q. Ms. Grable, prior to filing this document what steps did you take to ensure that all the documents -- all the statements in the document were true and accurate?
A. We were depending on the funding and we were sure that we were getting the funding.
BY MR. DESMET:
Q. Did you listen to Ms. Trotman's question?
A. Yeah.
MR. DESMET: Do you want to read it again?
BY MS. TROTMAN:
Q. Prior to signing the filing of the disclosures what steps did you take, if any, to ensure that the disclosure was complete and accurate?
A. I don't really remember what we did honestly. I have to go back and look at all my reports for that year 2008 and 2009.
Q. Ms. Grable, looking here you stated that

you think the submission of the FDA application should be completed in 2009.
Isn't it true in the earlier document if you look at Exhibit 44 that you had in fact told the investors that the PMA application would be -- submit the PMA application in the quarter ending June 30, 2009?
A. Yes.
Q. So what happened between the filing of that document and this exhibit -- excuse me, please.
A. I'm sorry.
Q. What happened between the time of the filing of Exhibit 44 and the filing of the 10-Q that occurred that would make the PMA application filing deadline later in the year?
A. I don't remember what happened.
Q. On what basis did you tell the investing public that the PMA application would be filed or would be completed in 2009?
A. Because we had a lot of sales that were coming through, and funding, you know.
BY MR. DESMET:
Q. Sales of what?
A. The CTLM in the international market. We

had hired four distributors, one in China, Italy, Romania, and Hungary.

Q. And what funding are you referring to now?

A. Huh?

Q. What funding are you referring to?

A. The funding we had -- let me see, who's the guy. A guy in California. Oh JMJ.

Q. I'm sorry?

A. JMJ, that's the initials, they go by JMJ.

Q. Who is that?

A. I forgot his name. Hold on. What is the name? I can't remember the name. We do almost every day every week we write to each other for funding. He's very good. He doesn't give us a lot of funding but he does helps, you know.

BY MS. TROTMAN:

Q. At the time of the filing of the 10-Q what additional -- what did you need the financing for?

A. Payroll.

Q. What else?

A. Rent, FPL, telephones.

Q. If you look here it states that there would be the remaining PMA process consisting of

the reading phase, statistical tabulation phase, and submission of the application.

Who was responsible for the reading phase?

A. For the clinical site?

Q. I'm talking about the one that you drafted here.

MR. MATHEWS: I'll object to that but let me make sure she is looking at the right --

MS. TROTMAN: Page 26 of 37.

MR. MATHEWS: She is breaking down this sentence here.

THE WITNESS: The reading phase, that's reading for the clinical site for the images.

MR. MATHEWS: Who is to complete that work?

THE WITNESS: The reading, at that time you still had Spalding, King and Spalding was supposed to do the reading, you know. They have their own people that does all the reading.

BY MS. TROTMAN:

Q. And who was responsible for the statistical tabulation?

A. King and Spalding.

Q. And who was responsible for the submission of the application to the FDA?

A. Deborah.

Q. Had you paid King and Spalding at the time of this 10-Q?

A. Was I paying him?

Q. Had you paid the firm?

A. Yeah, we didn't pay completely but we paid.

MR. MATHEWS: Let me know when there is a good time to break.

MS. TROTMAN: We can take a break now. We're off the record at 3:04 p.m.

(Whereupon, a recess was had.)

MS. TROTMAN: We are back on record at 3:15 p.m.

BY MS. TROTMAN:

Q. Ms. Grable, did we have any substantive discussions while we were off the record?

A. No.

(SEC Exhibit No. 46 was marked for identification.)

BY MS. TROTMAN:

Q. Ms. Grable, I've just handed you what's

been marked Exhibit 46. It appears to be a copy of a form S-1 filed by Imaging Diagnostics on December 9, 2009.

Please take a moment to review it and let me know when you're ready to proceed.

Ms. Grable, if you could turn to the last page of the document. If you look on the top right-hand corner it says page 166 of 166.

Is this your signature on that page?

A. Yeah.

Q. Ms. Grable, if you could turn then to page 7 of 166. If you look at the last full paragraph on that page.

Ms. Grable, if you look about halfway through that paragraph it states, we had originally planned on submitting our PMA application to the FDA in December 2008. However, while we anticipate that the remaining PMA process consisting of the reading phase, statistical tabulation phase, and the submission of the application to the FDA should be completed by April 2010, these milestones cannot be met unless we obtain sufficient financing through the sale of equity or debt securities.

Ms. Grable, in the last exhibit you had

stated that the submission of the PMA application of the FDA should be completed by 2009. Is that correct?

A. Yes.

Q. So now you're stating in this exhibit that the submission of the PMA application should be completed in April of 2010.

What caused the delay?

A. I guess funding.

Q. Ms. Grable, what basis did you have to tell investors that you were going to file the PMA application by April 2010?

A. Because we have people that were going to give us funding.

Q. As of the date of this filing did the company have sufficient cancer cases to complete the clinical study?

A. But we had a hundred.

Q. So at the time of the filing were your clinical sites, were they still operational?

A. April 10th?

Q. No, the filing was December 9th of 2009.

A. 2009. What was the question?

MS. TROTMAN: Can you repeat the question, please.

(Whereupon, a portion of the record was read by the reporter.)

BY MS. TROTMAN:

Q. Prior to signing this disclosure what did do you, if anything, to ensure that the disclosure was complete and accurate?

A. You know, I got to tell you something, I don't understand the question at all, not from the beginning, I don't understand it yet, and I don't understand it now.

Q. Mrs. Grable, it is your obligation today that if you don't understand one of my questions you need to tell me at the time that you don't understand it.

So my question to you is what did you do to ensure that the disclosure was complete and accurate?

Do you understand that under the securities laws you have an obligation to take steps to ensure that these statements that you're making to investors are accurate?

A. Yeah, I review them.

Q. So my question is what steps did you take to make sure that it was accurate?

A. Review them.

Q. Do you understand the question now?

A. Yeah.

Q. Do you understand the question every single time I asked it previously?

A. No.

Q. Ms. Grable, you have to tell me at the time of the question that you don't understand something or we're going to have to go back through everything.

A. I understand it now. You talk like an attorney.

Q. Ms. Grable, we're going to go through every one of the filings.

Ms. Grable, if you could look at Exhibit 45. What steps did you take to ensure that this – that the disclosures contained in this document were accurate before you filed it publicly with the SEC?

A. I reviewed it.

Q. What other steps did you take?

MR. MATHEWS: Can I ask her a couple of questions?

MS. TROTMAN: Sure.

MR. MATHEWS: Did you speak with Allan Schwartz concerning the filing before they

were filed?

THE WITNESS: Yeah.

MR. MATHEWS: Okay. Was Mr. Schwartz the primary drafter of the SEC filings on behalf of the company?

THE WITNESS: Yes.

MR. MATHEWS: So he made the first draft of it. Correct?

THE WITNESS: Yeah.

MR. MATHEWS: And then after that at some point then he would present it to you for your review and approval?

THE WITNESS: Yeah.

MR. MATHEWS: Is there anybody else that you consulted with outside of counsel?

THE WITNESS: No, we sent it back to Bob McCauley.

MR. MATHEWS: So Bob McCauley was involved in some aspect of drafting or approving the filings?

THE WITNESS: No, the only one that drafted was Allan Schwartz.

MR. MATHEWS: Do you know why they were sent to Mr. McCauley?

THE WITNESS: To review.

MR. MATHEWS: Were there any other board members that looked at the filings prior to them being filed?
THE WITNESS: At the beginning David Smith was there, they were given to him.
MR. MATHEWS: Okay. So he would be consulted on it as well?
THE WITNESS: Yeah.
MR. MATHEWS: What about Ms. O'Brian, did she review the portion --
THE WITNESS: No.
MR. MATHEWS: Wait until I finish my question.
Did she review any aspect concerning the FDA issues for accuracy?
THE WITNESS: I don't know. I don't think so.
MR. MATHEWS: Who at the company in 2008, 2009 was the most knowledgeable about the FDA approval process?
THE WITNESS: Deborah.
MR. MATHEWS: Deborah O'Brian?
THE WITNESS: Uh-huh.
MR. MATHEWS: What about Mr. Schwartz?
THE WITNESS: And Allan.

MR. MATHEWS: Did Mr. Schwartz have more knowledge than you about the FDA process or less knowledge?
THE WITNESS: I don't know. I think mostly the FDA was Deborah thing. And then we had a guy who was quality control but he would never -- he knew a lot about the FDA because he wrote the FDA and all that.
BY MS. TROTMAN:
Q. Going back to the questions I was asking. What steps -- for all the public filings what was your typical process and what steps did you take to ensure that the filings were complete and accurate?
A. Allan and I reviewed all the filings because Allan was the one that wrote them because he has the knowledge of writing filings. That was his job, you know. Then I will review it with him and then he would give it back to me and I look it over and then I give it back to him and he was the last person to do it and send it off.
So, you see, Allan was the one -- is the one that does all this paperwork.
Q. Ms. Grable, isn't it true that you signed every single one of these documents?

A. Yes, I did.
MR. MATHEWS: Objection. She didn't sign all of them.
MS. TROTMAN: Yeah, she actually did.
MR. MATHEWS: We saw two signed by Hanson.
THE WITNESS: There is letters signed by me, but the last part was signed by Tim Hanson.
MR. MATHEWS: I will object that the filings are what they were in terms of whose ever names are on them.
BY MS. TROTMAN:
Q. When did Imaging Diagnostic begin to consider filing a 510-K application instead of the PMA application?
A. That was in 2010, I think.
Q. Do you remember what month in 2010?
A. No. It had to be probably June or September, maybe September. I don't remember but I can get that information.
Q. Ms. Grable, I need you to turn back to what's been previously marked as Exhibit 34.
If you can turn on the top hand-right corner page 29 of 82 of Exhibit 34. If you look

at the last paragraph on that page it states, although we did not have a final determination on whether the clinical collection allotment for the PMA study was complete, in March 2010 we decided to focus on the possibility of obtaining FDA marketing clearance through a Section 510K premarket notification for our CTLM system instead of a PMA application based on our own research of other medical imaging devices that received a 510K premarket notification such as they were MRI breast imaging system.
Do you see that statement?
A. Yeah.
Q. Is that statement accurate?
A. Very accurate.
Q. So you believe that you began to consider filing a 510K application in March 2010?
A. That's probably when we found out about it.
(SEC Exhibit No. 47 was marked for identification.)
BY MS. TROTMAN:
Q. Ms. Grable, I've handed you what's been marked as Exhibit 47. It is a one page e-mail, and if you look on the top right-hand corner there

is handwritten Bates numbers BW0001 or BH476.
Ms. Grable, do you recognize this e-mail?
A. Yes.
Q. And this is an e-mail from Bob Wake?
A. And Brian Hummer.
Q. But the top e-mail if you look at it it's from Bob Wake. Is that correct?
A. Yeah.
Q. And who is Mr. Wake?
A. He used to be the vice president of engineering.
Q. If you look at the e-mail it's an e-mail to Donavan Brown, Linda Grable, yourself, Brian Hummer, Deborah O'Brian, Steve Ponder, David Richter, and Allan Schwartz, and Julio Vietta.
And it states, all, there is much discussion how to answer the substantial equivalent section of the 510K, I propose we meet sometime the week of March 15th to discuss the various proposals and see if we can come to some closure.
Do you see that?
A. Yeah.
Q. So is it true on the date of this e-mail on March 10th of 2010 you were considering filing

a 510K application?
A. Yes.
Q. Did you disclose that to the public?
A. I think so. I'm not sure.
Q. Who decided to proceed with filing a 510K application versus a premarket approval application?
A. Who decided?
Q. Yes.
A. Well, we just talked with the FDA in the phone and we asked the FDA if it was possible that we could going -- 510K is easier than a PMA, you don't need as many scans, and you don't need to medical clinical sites, and the 510K costs you $2,250 versus $50 thousand for the FDA. And so economically we thought it was good. Not only that but we all thought that we were a predicate. A predicate is technology equal to yours.
BY MR. DESMET:
Q. The question was who made the decision?
A. The whole group.
Q. Who is the group?
A. This group here, Bob Wake, Allan Schwartz, myself. We got on the phone with the FDA and we talked to Doctor Roth, and we asked him

and he said yeah, if you think your technology is almost the same as the MRI Aurora then by any means go ahead and file for submission on the FDA.
So we started working on the 510K, and we did the submission. We gave it to Spalding to send it out. I think Spalding made a little mistake and sent out the images, they were too small when he send them. Nevertheless, we still thought that we were equal to the MRI Aurora.
The FDA came back and said you are similar to the technology of Aurora but you are different so we want you to be a standalone because we were doing with mammography. Then you have to do mammography first then ours. Now after the FDA we can do ours alone without having the mammography. And they decided that we have to go through a PMA after all that, you know.
(SEC Exhibit No. 48 was marked for identification.)
BY MS. TROTMAN:
Q. Ms. Grable, I'm handing you what's been marked as Exhibit 48. It's a four page e-mail. The top e-mail is from Robert Ochs at the FDA to brown@imds.com, and the e-mail is dated March 24, 2010, at 3:22 p.m.

Ms. Grable, if you could turn to the last page of the document. Mr. Ochs at the FDA writes to brown@imds.com. Do you know who brown@imds.com is?
A. Yeah, he used to be our QC, quality control.
Q. What is his first name?
A. Donovan.
Q. Donovan Brown?
A. Yes.
Q. Okay. If you look about --
A. Which one are you reading?
Q. I'm on the fourth page.
A. The fourth page is not the same.
Q. Sorry. Page four if you look at the bottom -- I misspoke, it's a five page e-mail.
A. Okay.
Q. Mr. Robert Ochs at the FDA writes to Donovan Brown stating, I believe the pre IDE is missing the following items, identification, the predicate device that you will use for your 510K, details of any clinical studies you will use to demonstrate the safety and effectiveness of the device and specific questions you would like answered during the pre IDE process.

Do you see that?
A. Which one? Where?
Q. I'm in the middle of the page on page four, so it says I believe the pre IDE is missing the following items. Do see that?
A. Yeah.
Q. So after that the first bullet point says identification, the predicate device that you will use for your 510K. Is that correct?
A. Yeah.
Q. Okay. So isn't it true as of March 16, 2010, employees of Imaging Diagnostics were discussing with the FDA that they were going to intend to file a 510K application?
MR. MATHEWS: Objection, lack of foundation. She is not a recipient of this e-mail.
MS. TROTMAN: She does not have to be a recipient.
BY MS. TROTMAN:
Q. Isn't it your understanding that in March of 2010 your employees were having discussions with the FDA regarding filing of 510K applications?
A. Yeah. I don't understand why.

(SEC Exhibit No. 49 was marked for identification.)
BY MS. TROTMAN:
Q. Ms. Grable, I've handed you what's been marked as Exhibit 49. It's a two page document with handwritten Bates numbers on the top right-hand corner, it's JG-40077 and JG-50078. If you look at the top e-mail it's an e-mail from Deborah O'Brian to a series of people, algrable@imds.com, Donovan Brown, Andy Konover, Jonathan Green, Emily Hines, Brian Hummer, Larry Langerhulk, and Andrea Lasaura, Steve Ponder, Thomas Pringle, David Richter, Greg Rodes, Kirk Rubenet, Allan Schwartz, Hang Tu, and Juliette Vietta, and Bob Wake.
Mrs. Grable, isn't it true that algrable@imds.com is your e-mail address?
A. Yeah.
Q. So if you look at the second full paragraph on that first page. In addition you are absolutely incorrect as to saying, quote, no one else did or tried getting to them. Actually we did two years ago, it happened since, but the company went through financial hardship and is going through financial hardship and there is no

money budgeted for the FDA process 510K or PMA. We were barely able to pay our salaries let alone our regulatory agents such as King & Spalding not to mention our clinical sites.
Was this statement by Mrs. O'Brian accurate?
A. If she said it of course it has to be. I don't know.
Q. Ms. Grable, was it accurate that there was no money budgeted for the FDA process for the 510K or the PMA?
A. I think she was incorrect but she was very disturbed by this time because she was in charge of the FDA and we took her off.
Q. Ms. Grable, how is that statement incorrect? Did you actually have money for the FDA to process the 510K or the PMA?
A. We were getting money for the 510K.
Q. Was the statement that the company was going through financial hardship, was that accurate?
A. That's accurate, it's been like that for nineteen years.
Q. She stated that the company was barely able to pay our salaries.

Was that an accurate statement in March of 2010?
A. Yes.
Q. Ms. Grable, it's very important that you allow me to finish my questions before you speak. Do you understand? Okay.
MR. DESMET: Do you understand?
THE WITNESS: Yeah.
BY MS. TROTMAN:
Q. It states we were barely able to pay our salaries let alone our regulatory agents. Is that an accurate statement?
A. Yes, we lost all of them anyway, every one of them.
Q. Who did you lose?
A. We lost all the employees.
Q. Okay.
A. Because we weren't able to pay them.
Q. And your regulatory agents such as King and Spalding, were you not able to pay them?
A. Yeah, we paid them some.
Q. Did you pay all of what you owed them?
A. Right now I think we did.
Q. When did you pay them all what you owed them?

A. This year.
Q. So in 2010 they had bills outstanding from 2010 and they weren't paid until 2012?
A. $500 thousand.
Q. And she also states that you weren't able to pay your clinical sites. Was that an accurate statement?
A. That's an accurate statement.
Q. It's not?
A. It is.
Q. Okay. So is the reason that company failed to file a PMA in 2008 and 2009 the lack of financial funding?
A. Exactly.
Q. Were there any other reasons besides that?
A. That was it.
(SEC Exhibit No. 50 was marked for identification.)
BY MS. TROTMAN:
Q. Ms. Grable, I'm handing you what's been marked as Exhibit 50. It appears to be a copy of a prospectus filed on May 27, 2010.
Please take a moment to review it and let me know when you're ready to proceed.

Ms. Grable, do you recognize the document?
A. Yeah.
Q. Can you turn to page five of 160. If you look midway through the last paragraph on that page. It states, we had originally planned on submitting our PMA application to the FDA in December of 2008, however, while we anticipate the remaining PMA process consisting of the reading phase, the statistical tabulation phase, and submission of the application the FDA should be completed by July 2010. These milestones cannot be met unless we obtain sufficient financing through the sale of equity or debt securities.
Do you see that?
A. Yes.
Q. Was that an accurate statement at the time of the filing?
A. Yes.
Q. Ms. Grable, isn't it true that you had already determined in March of 2010 that you intended to file a 510K application?
A. Yes.
Q. So why didn't you disclose to investors that you intended to file a 510K application?

A. Because we were just discussing it, we weren't really doing it at the time, we were just finding -- trying to find out if we could do it.
Q. But Ms. Grable, isn't it true that as of here -- as of the date of this filing you are continuing to tell investors you're going to submit a PMA application? Is that correct?
A. Because we have not -- we have not really decided on the 510K until we find out what it entailed to do that so it was still -- we were still leaving the PMA alone.
Q. Ms. Grable, prior to the filing of this disclosure what steps did you take, if any, to determine the disclosure was complete and accurate?
A. Reviewing.
Q. Did you take any other steps?
A. Review it and we discussed it with Allan.
Q. Ms. Grable, if you could turn back to what's been previously marked as Exhibit 34.
A. What page?
Q. Exhibit 34. If you can turn to page 54 of 82 if you're looking at the top right-hand corner.
A. Okay.

Q. If you're looking on that page the first full paragraph states, in July of 2010 we made our decision to as our predicate device the breast MRI. This decision was made as a result of our --
A. I got the wrong one.
Q. Ms. Grable, looking at Exhibit 34 in the first full paragraph on page 54 it states, in July of 2010 we made our decision to as our predicate device the breast MRI. The decision was made as a result of your examination of comparative clinical images between CTLM and breast MRI which are both functional molecular imaging devices having the ability to visualize angiogenesis in the breast. We began preparing section 510K premarket notification submission and engaged the services of an FDA regulatory consultant to review our preliminary draft and then we engaged the services of the FDA regulatory counsel to complete the Section 510K premarket notification application and submit it to the FDA.
Do you see that statement?
A. Yeah.
Q. Is that statement accurate?
A. Yes.
Q. Did you disclose this to investors in

July of 2010 that it was your intent to file a 510K application?

A. Yes, we did.

Q. Where did you disclose that?

A. In the press release.

Q. What was the press -- do you remember the press release, what it was dated?

A. No.

Q. Ms. Grable, let me show you what's just been marked as Exhibit 51. It appears to be a three page e-mail, and it has handwritten Bate stamps on the top right-hand corner BW089BH564, the following page is BW090, and the final page is BW091, and the BM -- the second page is 565 and BH 566.

Who is Benjamin England?

A. He's an FDA attorney I think.

Q. He's an attorney?

A. Yeah. He's all over the internet all the time with a lot of seminars.

MR. MATHEWS: Is this attorney client communication?

MR. DESMET: Looks like it might be.

MR. MATHEWS: Can we take a break for a minute?

MS. TROTMAN: Sure. We're off the record at 3:50 p.m.

(Whereupon, a recess was had.)

MR. DESMET: Back on the record.

MS. TROTMAN: Back on the record at 4:00 p.m.

BY MS. TROTMAN:

Q. Ms. Grable, did we have any substantive discussions while we were taking a break?

A. No. We just went for candy.

MR. MATHEWS: I'm going to assert the attorney client privilege on this document and documents and questions concerning the company and Ms. Grable's communications with Benjamin England.

MR. DESMET: Let the record reflect that this document was produced by Imaging Diagnostic, the staff did not know that this individual was an attorney. However, on several occasions the staff received what appeared to be privileged documents from the company. Each time the staff stopped reading the documents and immediately returned them. We also stated in writing to the company that these documents appear

privileged and asked that Imaging Diagnostics prepare a log or if the company determined the documents were in fact not privileged that they state it in writing why they are not privileged and return the documents to us.

This has happened three times, four times. The third time we explicitly stated in writing that the company may not shift to the staff its burden of identifying privileged documents in the circuit to preserve a privilege claim a party must conduct a privilege review prior to producing documents. We cited case law in the 11th Circuit, as well in the enforcement manual. We also noted that going forward to the extent Imaging Diagnostic would continue to produce privileged documents we would consider the privilege waived. As a result we plan to ask you questions about this document.

MR. MATHEWS: Your first statement you said you didn't know he was an attorney, the last page of this says Benjamin England, Esq., it's clear that he is an attorney.

MR. DESMET: I meant to say that it was not company counsel.

MR. MATHEWS: Okay. And the prior communication that you're discussing, at the time Ms. Grable did not have counsel involved in the process, now she does have counsel involved in the process, so she is a layperson --

MR. DESMET: I think though, counsel, referring to company productions and company counsel; right?

MR. MATHEWS: I'm sorry.

MR. DESMET: I don't think these documents were produced by Ms. Grable in her personal capacity pursuant to her subpoena necessarily I belie that the company also produced privileged documents.

MR. MATHEWS: They weren't represented by counsel at that point in time.

MR. DESMET: But you're not representing the company is my point.

MR. MATHEWS: I'm not. I don't want to be in a position to waive attorney client communication for the company or for Ms. Grable.

MS. TROTMAN: That's actually not accurate. They did actually have counsel involved during this time frame. We were in regular contact with Robert McCauley.

MR. MATHEWS: Did these documents come from Robert McCauley?

MS. TROTMAN: No, but he was very aware that they were doing production on their end.

MR. MATHEWS: What --

MS. TROTMAN: And we informed Mr. McCauley.

MR. DESMET: I understand your position, I think the record is clear your position is that she is not to answer questions about this document, that it's privileged, our position is the privilege has been waived and I think it's fine, we can keep going.

MR. MATHEWS: But you're going to keep asking questions?

MR. DESMET: Well, if we ask the witness any questions about this document will you direct the witness not to answer?

MR. MATHEWS: Yes, I will.

MR. DESMET: The record is clear and we

can go on and ask other questions.

MR. MATHEWS: That's fair.

MR. DESMET: Again, just to make sure the record is clear, we may have no choice but to recommend subpoena enforcement proceedings.

MR. MATHEWS: I understand. And what I would request if there are isolated documents that the Commission would like to ask Ms. Grable about after I've had time to consult I may for isolated instances be able to say not a problem, but right now I can't do that.

MS. TROTMAN: Can you mark this?

MR. MATHEWS: So Exhibit 51 are you going to withdraw that as an exhibit? I would prefer it not be apart of the record right now.

MR. DESMET: That's fine.

MR. MATHEWS: 51 is withdrawn.

MR. DESMET: Mark that one as 51.

(SEC Exhibit No. 51 was marked for Identification.)

BY MS. TROTMAN:

Q. Ms. Grable, I'm handing you what's been

marked as Exhibit 51. It's an 8-K filed by Imaging Diagnostic on November 22, 2010.

Do you recognize the document?

A. I don't remember it.

MR. MATHEWS: Ms. Grable, if you can look at the text of it, maybe review that portion and then answer the questions.

THE WITNESS: Yeah.

BY MS. TROTMAN:

Q. Ms. Grable, do you recognize the document?

A. Yeah.

Q. Is this the press release that in your testimony you were earlier referring to?

A. I think so.

Q. Ms. Grable, isn't it true that this 8-K if you go on the front page wasn't filed until November 22nd of 2010?

A. What?

Q. If you look on the first page of the document it states that the date is November 22, 2010. So isn't it true this 8-K wasn't filed until November 22nd of 2010?

A. So I don't understand what you're trying to tell me.

Q. I'm asking you a question. Was it filed November 22nd of 2010?

A. It was filed 11/23.

Q. Okay. Ms. Grable, prior to this press release had you disclosed to investors that you intended to file a 510K instead of a premarket approval application?

A. We wrote the press release.

Q. That's not my question. My question is prior to the date of this filing of this 8-K had you disclosed to investors that you intended to file a 510K application instead of a premarket approval application?

A. I don't remember. I don't remember at all.

(SEC Exhibit No. 52 was marked for identification.)

BY MS. TROTMAN:

Q. Ms. Grable, I've handed you what's been marked as Exhibit 52. It is a three page letter from the Department of Health and Human Services. It has a handwritten Bate stamp only on the center of the first page and it's 0039. The letter is stamped January 20, 2011.

Do you recognize this letter?

A. Yes.
Q. Did you review this letter in January of 2011?
A. Did I review it?
Q. Do you remember reviewing this in 2011 in, January 2011?
A. I may not because it went to Donovan Brown and he could have been out of the office so I can't really answer that question just like that because I don't know.
Q. Have you seen this letter prior to today?
A. Yes.
Q. Do you think that you saw this letter sometime in 2011?
A. I don't know.
Q. When did you see this letter prior to today?
A. I don't remember but I know that Donovan did not give us the letter right away.
Q. Well, when did he actually give you a copy of the letter?
A. I don't remember.
Q. Ms. Grable, in the letter it states, we have reviewed your section 510 premarket notification of intent to market the device

referenced above, we cannot determine if the device is substantially equivalent to a legally marketed predicate device. Based on our review of your submission it appears your device has a new indication for imaging the optical attenuation proprieties of breast tissue that alters the diagnostic affect impacting safety and effectiveness and is therefore a new intended use.
Did you come to learn at some point that the FDA considered your device a new intended use?
A. Yes.
Q. When do you think you learned that?
A. I don't remember that.
Q. The next paragraph states, based on this determination we believe your 510K would likely be found not substantially equivalent -- equivalence and result in your device being to be classified by the statute into a class three premarket approval under Section 513F of the Federal Food Drug and Cosmetics Act. Do you see that?
A. Yes.
Q. Do you remember learning that information that the FDA believed that your 510K application would be found not substantially equivalent?
A. Yeah, we were very happy because if you

read on it tells you that they considered our technology to be standalone and that we -- that they were giving us a chance to have the system by itself but we didn't have to have a mammography or MRI or anything.
BY MR. DESMET:
Q. How did you learn the content of that letter?
A. How did I learn? I don't think it was at this date. I think that Donovan was on vacation or something and the letter was in his e-mail so we didn't get in touch of the thing until after he came back.
Q. How did you learn the information?
A. Huh?
Q. How did you learn the information?
A. Well, he gave it to us when he came back.
BY MS. TROTMAN:
Q. How long was he on vacation?
A. Five days, five, seven days.
Q. So if the letter is dated January 20th of 2011 and he was on vacation for approximately a week do you think that you received the letter --
A. He was --
Q. -- sometime in January 2011?

A. Yeah, yeah.
BY MR. DESMET:
Q. Just so the record is clear, your reaction to the letter was happiness?
A. Oh yeah, it was fantastic because now we were standalone technology and they gave us a new name, DOT, diffuse optical tomography.
BY MS. TROTMAN:
Q. Ms. Grable, if you will look at the last sentence on the first page of the letter it states, CTLM raises also new types of safety and effectiveness questions compared to CT or MR. The use of laser light will require different types of safety procedure and quality assurance task to evaluate the laser output and function. The image acquisition parameters will also be different in the image acquisition parameters of CT, EG, MAF, KVP, pitch, reconstruction, colonel cormel, et cetera, or MRI, EG, TE, TR, fat suppression, et cetera, systems. In general the CT images from one manufacturer will look very fine to the images from another manufacturer. The same can be true for MR images. However, CTLM images do not appear to be similar to either CT or MR images. The sample images provided suggest that the laser

device will have much worse resolution which increases the concerns about the effectiveness of the system.

A. We got that fixed. That was King & Spalding send the images.

MR. DESMET: I'm sorry, there is no question pending.

MR. MATHEWS: Wail until she asks a question. She just read to you a portion of a letter and she will have a follow-up question. Don't anticipate where she is going to.

BY MS. TROTMAN:

Q. Ms. Grable, you said that you got this letter and you were happy. Now, the FDA just stated that they believe that your sample images have worse resolution, why would you be happy after receiving this letter?

A. I'm happy because the technology can standalone now. And those images that was sent by King & Spalding were very bad images. Instead of sending the regular images that we always send to the FDA they were sent images like this, you couldn't even see the images, there was no way, so we got that fixed with the FDA. They corrected

that.

Q. Ms. Grable, if you look on the second page, page two of three, on the last full – the second to last full paragraph on the page it states, in reviewing your clinical study the following items that raise concern about the effectiveness of the device were noted. The clinical study did not include any statistical analysis, the clinical study did not include any information on the subject selection inclusion slash exclusion criteria, number and qualifications of the radiologist, or even the opinion of the radiologist on each findings. The sample images were very small, approximately two centimeters by two centimeters. However, even at this small size the resolution in the CTLM images appear to be much worse than MR images. In many instances the CTLM and MR images were not show, and I think it should be shown, in the same orientation further complicating the visual comparison. Overall, the clinical images are not sufficient to understand the accuracy of the device for detecting angiogenesis, the clinical images are not sufficient to understand the performance of the device across different breast

characteristics, e.g., size, density, tissue, or color, or disease types.

Why would you be happy after receiving this letter –

A. We fired King & Spalding because it was their fault. Number one, 510K does not need clinical studies. Period. They never do. Okay. That's a number one. You don't need clinical studies for the 510K, all you need is to be equivalent to another technology. So we did send some images. King and Spalding made them so small that it was very difficult for you to read any kind of an image, I don't care who you are, there was no way you can have a good image. And my technology works. We found a lot of cancers. Okay.

BY MR. DESMET:

Q. Who else in the company read that letter?

A. Everybody in the company read it and they all said the same thing. That's why we fired King & Spalding, we had to.

Q. Did everybody who read the letter indicate to you that they were happy with the letter?

A. We were so happy, everybody was

applauding loud.

Q. Applauding?

A. Yeah.

Q. Okay.

A. I'm telling you, is was the best thing to happen to us. To do the scanning without having to go through mammography and all that. Why would a doctor buy something if he had to do something else first, it doesn't make sense.

BY MS. TROTMAN:

Q. Ms. Grable, did you disclose to investors the concerns that the FDA had?

A. What?

Q. Did you disclose to investors the concerns that the FDA set forward in this letter?

A. I don't know about that. I have no idea.

BY MR. DESMET:

Q. The question is did you?

A. Did I what?

Q. Did you disclose to the FDA – did you disclose to the public the concerns expressed by the FDA in that letter?

MR. MATHEWS: She answered that question.

THE WITNESS: I did. I don't know. Why would I do that?

BY MR. DESMET:

Q. You don't know whether you made a disclosure or not?

A. No. I don't know. I have to go back and look.

Q. Did you ever suggest to anyone at the company that the concerns expressed in that letter ought to be disclosed to the public?

A. I have no idea that I had to do that.

Q. The question is not about your obligation, the question is did you ever suggest?

A. I don't know.

Q. Did anyone at the company ever suggest to you that the concerns identified in that letter ought to be shared with the public?

A. No.

Q. Okay.

BY MS. TROTMAN:

Q. Ms. Grable, you understood that the FDA approval was important; wasn't it?

A. Yeah.

Q. And that without the FDA approval you wouldn't be able to sell the CTLM device in the United States. Correct?

A. I've known that for 19 years. The FDA is

working with us now, they're helping us a lot.

(SEC Exhibit No. 53 was marked for identification.)

BY MS. TROTMAN:

Q. Ms. Grable, I'm handing you what's been marked as Exhibit 53. It is a 34 page e-mail. The top e-mail is from Robert Ochs to maddley@imds.com copying Donovan Brown and the e-mail is dated 8:41 a.m.

Ms. Grable, I want you to look on the second e-mail on the page, it's an e-mail from Mike Addley to Robert Ochs, copying Donovan Brown dated May 20, 2011, at 11:47 a.m.

If you look at what Mr. Addley writes he says, my focus will be on the following, and then there is a series of bullet points, the second bullet point states, I am currently interviewing, in parenthesis, soon to hire with professional protocol statistical companies with the goal of designing and eventually implementing an FDA acceptable clinical study that will demonstrate the strengths, and in parenthesis, and hopefully not too many weaknesses, of our laser base mammography. I will forward the proposed study for your review as soon as we have it. I will

also put together a task force free clinical staff members who are charged with locating and willing, in quote, Aurora MRI site with the purpose of organizing slash implementing our clinical study.

Ms. Grable, were you aware that Mr. Addley was in the process of interviewing professional protocol slash statistical companies with the goal of designing an FDA acceptable clinical study?

A. Yes.

Q. Why was Mr. Addley trying to design a clinical study at this stage?

A. I don't know.

Q. Ms. Grable, isn't it true that Imaging Diagnostic had a series of clinical studies prior to this date?

A. Yeah.

Q. So why would Mr. Addley be designing a new clinical study that would be acceptable to the FDA?

A. I guess he wanted to be important, I don't know.

Q. What was wrong with the previous clinical studies that Imaging Diagnostic had conducted?

MR. MATHEWS: Objection.

THE WITNESS: What was wrong, nothing was wrong. It was just that the doctors did not follow the protocol. If you don't follow the protocol the FDA is going to get after you.

BY MS. TROTMAN:

Q. So all the clinical studies that had been conducted prior to May 2011 the doctors did not follow the clinical protocols?

A. Exactly.

Q. Did you disclose that to investors?

A. I don't know.

Q. Did you disclose to investors that you would have to conduct a new clinical study?

A. That's all Addley's thing. I don't think he's done anything anyway, why would I disclose it. That was his doing.

Q. Who is Jose Sismaro?

A. Who?

Q. Jose Sismaro?

A. He's a radiologist consultant.

Q. And what is his role in connection with Imaging Diagnostic?

A. Was role, he used to do installations, reading. He's working for University of Miami.

BY MR. DESMET:

Q. Was he ever retained by the company as a consultant?

A. Yeah, he used to do some of the installations and international market like going to Malaysia.

(SEC Exhibit No. 54 was marked for identification.)

BY MS. TROTMAN:

Q. Ms. Grable, I'm handing you what's been marked as Exhibit 54. Exhibit 54 is a three page e-mail, a string of e-mails, it's Bate stamped BW044 through BW046, and below that it's in handwritten Bate stamped BH519 through BH521.

Mrs. Grable, I want to direct you to the last e-mail, it's an e-mail from Jose Sismaro to maddley@imds.com. Is maddley Mike Addley?

A. Uh-huh.

Q. Okay.

MR. DESMET: I'm sorry, is that a yes?

THE WITNESS: Yes.

BY MS. TROTMAN:

Q. It's an e-mail dated Wednesday, July 6th of 2011, at 8:46 p.m. I want you to look on page two of three. If you go down on the

left-hand side Mr. Addley has number one through four. Mr. Sismaro has number one through four on the left-hand side of the page.

Mr. Sismaro writes concerning you, I think he means your, you valid remarks about what FDA may ask, and it states define aggressive breast cancer, aggressive cancer is a definition -- is by definition a cancer that has passed the in SITU state and is growing and invading rapidly, therefore, it has a higher mortality and poor prognosis. By inference this are the breast cancers where CTLM may find angiogenesis a significance to make a positive diagnosis. In SITU cancers that are not aggressive, and in parenthesis, low grade are unlikely to produce detectable angiogenesis.

Ms. Grable, isn't it true that the CTLM system works by detecting angiogenesis?

A. Yes.

Q. So when Doctor Sismaro states that in SITU cancers that are not aggressive or low grade or likely to produce detectable angiogenesis by that he means that the CTLM system would not be able to detect those cancers?

MR. MATHEWS: Objection.

THE WITNESS: He's wrong anyway.

MR. DESMET: We're just asking you for your understanding of what the doctor is trying to convey.

THE WITNESS: Number one --

MR. DESMET: We're not asking you whether he's right or wrong.

THE WITNESS: Number one, Doctor Sismaro just wasn't a good reader.

MR. DESMET: That's not the question.

THE WITNESS: Okay. What was the question?

BY MS. TROTMAN:

Q. The question is he states that where the cancers aren't aggressive they're not likely to produce detectable angiogenesis.

Do you agree with that statement?

A. No, he's wrong.

Q. Why?

A. Because it is not true. We can see any angiogenesis no matter what. We have a lot of proof on this. We can send them to you.

(SEC Exhibit No. 55 was marked for identification.)

BY MS. TROTMAN:

Q. Ms. Grable, I'm handing you what's been marked as Exhibit 55. It's a two page letter from the Department of Health and Human Services. There's a date August 2nd of 2011.

Ms. Grable, do you recognize this letter?

A. Yeah.

Q. This letter is directed to Mr. Donovan Brown. Did you actually -- did you receive a copy of this letter?

A. I don't remember that but I've seen it.

Q. When did you first see this letter?

A. I don't remember when but I saw it.

Q. Do you believe that you saw this letter in 2011?

A. I don't know, I really don't.

Q. Ms. Grable, the letter states we have determined the device is not substantially equivalent to the device marketing in interstate commerce prior to May 28, 1976. The announcement date as the medical device amendment or to any device such as been reclassified in class one, general controls, or class two, special controls, or to another device found to be substantially equivalent through the 510K process.

Do you see that?

A. What?
Q. Do you see the paragraph that I just read to you?
A. Which one is that?
Q. Ms. Grable, if you look at the first paragraph on the first page.
A. Okay.
Q. It states, we have determined the device is not substantially equivalent to devices marketed in interstate commerce prior to May 28, 1976, the announcement date of the medical device amendment or to any device which has been reclassified in a class one, general control, or class two, special controls, or to another device found to be substantially equivalent through the 510K process.
Do you see that statement?
A. Yes.
Q. Ms. Grable, did you understand in August of 2011 that the FDA in this letter had denied your 510K application?
A. I know we did. I've known that.
Q. Ms. Grable, did you understand that in August of 2011?
A. Yes.

Q. After the 510K application was denied Imaging Diagnostic would then have to file a premarket approval application to be able to sell the device in the United States. Is that correct?
A. Correct because they put us in a new category, it's a new technology now.
(SEC Exhibit No. 56 was marked for identification.)
BY MS. TROTMAN:
Q. Ms. Grable, I'm handing you what's been marked as Exhibit 56. It's an 8-K from the company dated August 3, 2011. Sorry, it's August 3rd of 2011. If you turn to what's been marked as Exhibit 99.1.
Do you see this press release?
A. Yes.
Q. Ms. Grable, what was your role in connection with this press release?
A. Okay, it was the truth, you know.
Q. Ms. Grable, that's not my question. My question is what was your role in connection with drafting this press release?
A. I have people that write the press releases.
Q. Who prepared this press release?

A. Mike Addley.
Q. Did anyone else review this press release at Imaging Diagnostic?
A. I think three people did.
Q. Who were those three people?
A. Allan Schwartz. And what time was it? Let's see. Three people do that.
Q. If you go to the first page it's dated August 3rd of 2011.
A. Allan Schwartz, myself, and Bob Wake.
BY MR. DESMET:
Q. Who asked Mr. Addley to prepare this press release?
A. He did it because when we got the letter we decided that we had to do a press release telling all about what happened and so he wrote it. He's pretty good sometimes of writing press releases and letters.
Q. You said we decided, who is we?
A. Allan Schwartz, myself, and Bob Wake.
BY MS. TROTMAN:
Q. Ms. Grable, the press release states on August 3rd of 2011 – no, sorry.
States, Imaging Diagnostic Systems, Inc., a pioneer in optical breast imaging announced it

received notification from the Food and Drug Administration, parenthesis, FDA, that the review of the company Section 510 premarket notification application of its CTLM system has been complete and categorized as a class three device requiring premarket approval application.
Do you see that statement?
A. Yes.
Q. Isn't it true that the 510K application had been denied?
A. Of course.
Q. How come it doesn't state here that the application had been denied?
A. It was done in another press release. It didn't have to be in this one.
Q. Ms. Grable, when was the other press release released?
A. I don't have it in there. I don't know but I know it was released.
Q. When?
A. I have no idea. I don't remember when. I don't remember dates.
BY MR. DESMET:
Q. Why wasn't it disclosed in that press release?

A. Actually the press release was to let people know that the FDA has made the technology into a new technology, that was all this press release was about, it wasn't about the 10-K. I think we did already a 10-K, not a press release but an 8-K.

BY MS. TROTMAN:

Q. Ms. Grable, you testified previous -- sorry.

Isn't it important that the company received FDA approval?

A. Very important, it's number one in the company.

Q. So don't you think it was important to tell investors that the 510K application had been denied?

A. Well, I don't know if we didn't tell the public. I can't tell you right now that we did or we didn't. I have to find out when I get to the office because I know we did something about it.

Q. Ms. Grable, but you would say it would be important to actually tell investors --

A. Yes.

Q. -- that it was denied?

A. Very important.

Q. Ms. Grable, I want to direct you to a statement. If you look at the second paragraph it states, Linda Grable, Chairman and CEO of IDSI, commented that the FDA conclusions are somewhat disappointing but also very encouraging in that on the on hand we are disappointed that the FDA found more dissimilarities than similarities between CTLM, MRI, and CT, even though CTLM has technological roots deeply based on both CT and MRI imaging theory. However, on a very positive note after years of developing a truly unique and noninvasive breast imaging technology we are finally being recognized as diffused optical tomography.

Do you see that statement?

A. Yeah.

Q. Is that a statement that you gave?

A. Yes.

Q. Who did you tell that to?

A. What do you mean?

Q. Who did you tell that to so that it would be included in this press release?

A. We had a meeting.

Q. And who was involved in the meeting?

A. Bob Wake, Allan, Mike, Deborah. I think

that was it.

MR. MATHEWS: At a good time can we take one more break, I would like to get some water?

MS. TROTMAN: We can take a break now. We're off the record at 4:40.

(Whereupon, a recess was had.)

MS. TROTMAN: We're on the record at 4:48 p.m.

(SEC Exhibit No. 57 was marked for identification.)

BY MS. TROTMAN:

Q. Ms. Grable, I'm handing you what's been marked as Exhibit 57. It's a three page letter dated August 12th of 2011 from the United States Securities and Exchange Commission.

Ms. Grable, do you recognize this document?

A. I have to take a pill.

Q. Ms. Grable, do you recognize the document?

A. Yes.

Q. Did you receive this in August of 2011?

A. Uh-huh. Yes.

Q. If you look on the bottom of the first

page for the prospectus summary page four it says, please revise to discuss the outcome of your 510K submission to the FDA. In this regard if the FDA denied or rejected your 510K application please state so clearly and directly.

Do you see that?

A. Huh?

Q. Do you see where I just read this?

A. Yeah.

Q. Prior to the date -- prior to August 12th of 2011 had you ever clearly disclosed that the 510K application had been denied by the FDA?

A. Yes.

Q. Where had you disclosed that?

A. We answer all the comments that the SEC gives us.

MR. DESMET: I think you may want to restate the question.

BY MS. TROTMAN:

Q. Ms. Grable, prior to the date of this letter had you clearly disclosed anywhere that the 510K application that you filed -- the 510K application had been denied by the FDA?

A. I think we just passed that in one of the these things here, you know. I don't know.

Q. What are you referring to here?
A. Press releases and everything that we put out that we told the public what the FDA said.
BY MR. DESMET:
Q. They're all in front of you so it would be helpful if you could show us which one has the disclosure.
MR. MATHEWS: I think she was referencing in another 8-K not something that's been provided today.
MR. DESMET: From when; an 8-K from when?
THE WITNESS: I know we did something.
BY MS. TROTMAN:
Q. My question is prior to August 12 of –
A. I don't know then because I don't remember.
MR. DESMET: I'm sorry, there was a question that you -- you need to Ms. Trotman finish, please.
BY MS. TROTMAN:
Q. Ms. Grable, prior to August 12th of 2011, did you disclose to any investors clearly that the 510K application had been denied?
A. We did.
Q. Where?

A. I don't remember where but we did.
BY MR. DESMET:
Q. Was it in a filing or was it a press release?
A. I think it was in one of the filings.
Q. Do you remember the date?
A. No. Are you kidding, no.
Q. Do you remember the year?
A. It had to be '11, 2011. I know we did. I have to go back to 2011 and look through all the Q's and the 10-K's, you know.
This happen in August and I had to done it before August, probably maybe June or July.
Q. Why do you believe you did it in June or July?
A. I don't know because it looks like that's one of the times when we do 10-Q's.
Q. Any other reason?
A. No, I just don't remember.
(SEC Exhibit No. 58 was marked for identification.)
BY MS. TROTMAN:
Q. Ms. Grable, I'm handing you what's been marked as Exhibit 58. It's a two page e-mail on the top right-hand side of the page in handwriting

it's Bate stamped RG031 to 032 and 0666 to 0667.
Ms. Grable, I want to direct your attention to the e-mail, it's the bottom e-mail chain on the first page, it's an e-mail from Greg Rodes to you, Mike Addley, Deborah O'Brian, Allan Schwartz, David Schmidt, copying you again, Mike Addley, Allan Schwartz, and Deb O'Brian at aol.com.
Ms. Grable, do you recognize this e-mail?
A. Yeah.
Q. Yes?
A. Yes, I said yes.
Q. Mr. Rodes writes, attached is a first draft of the 10-K as of September 9, 2011, please note the following. In this 10-K draft we've included all the language and disclosures that was in our most recent S-1 registration statement filed on July 12, 2011, our other edits throughout the 10-K are in blue.
Is this how Mr. Rodes would typically circulate 10-K drafts to the company?
A. Yes.
Q. And you are on these e-mails?
A. Yes.
Q. If you turn to the second page Mr. Rodes

writes, please let us know if you have any edits or comments.
Did you have any comments to this 10-K that was circulated?
A. (Shakes head.)
Q. You have to state yes or no?
A. No.
(SEC Exhibit No. 59 was marked for identification.)
BY MS. TROTMAN:
Q. Ms. Grable, I'm handing you what's been marked as Exhibit 59. It's a three page letter from the United States Securities and Exchange Commission dated October 14th of 2011, and the letter sent to your attention.
Ms. Grable, do you recognize this letter?
A. Yes.
Q. If you go on the left-hand side of the page on the first page there is numbers, if you look at number one it states, we note your response to prior comment to, please revise your prospectus summary and elsewhere in the prospectus as appropriate to clarify if true that your 510 application was rejected by the FDA.
Do you see that?

A. Yes.
Q. What was your reaction to this letter?
A. I hate to tell you what my reaction was. I won't tell you.
Q. Ms. Grable, you have to say --
MR. MATHEWS: Is there a polite way for you to --
THE WITNESS: Very polite way, full of crap.
MR. MATHEWS: I prefer you would have used different language but --
BY MS. TROTMAN:
Q. Ms. Grable, what steps did you take after receiving this letter?
A. I called Marybeth and I told her she was wrong.
Q. And by Marybeth are you referring to Marybeth Reslin at the Securities and Exchange Commission?
A. Yes.
Q. And what did you tell Ms. Reslin exactly?
A. I told her that it was not true, that we were not really rejected, actually we were given a new technology that can now be done differently and that it's a new technology. I told her the

FDA was not rejected it they just changed the way the technologist supposed to do it and now we have to do a PMA.
Q. Ms. Grable, isn't it true that the 510K application that Imaging Diagnostic had pending with the FDA was denied?
A. It was denied but at the same time they gave us the new way of doing the technology now. We're supposed to be diffused optimal tomography.
Q. But isn't it true that if the 510K application was denied Imaging Diagnostics did not have permission to sell the CTLM system in the United States?
A. No, we can't sell them until we get the PMA approval now.
Q. So why would you call and tell an attorney with the SEC that it wasn't true that the application had been denied?
A. Because they were reading it wrong. And I actually -- it was denied in one way but actually accepted in a different way, okay. And changed -- denied one way, accepted another way and changed into a new category, if I can just say that.
(SEC Exhibit No. 60 was marked for identification.)

BY MS. TROTMAN:
Q. Ms. Grable, I'm handing you what's been marked as Exhibit 60. It's a six page letter from Carlton Fields to the Securities and Exchange Commissions. Do you recognize this letter?
A. Yeah.
Q. Did you review this letter prior to it being sent to the Securities and Exchange Commission?
A. No.
Q. Who reviewed the letter prior to it being sent to the Securities --
A. Allan.
Q. You have to allow me to finish my questions.
A. Okay.
Q. Who reviewed the letter prior to it being sent to the Securities and Exchange Commission?
A. Allan.
Q. And by Allan do you mean Allan Schwartz?
A. Yes.
Q. Ms. Grable, if you look on the bottom of the first paragraph -- bottom of the first page, the very last paragraph, the NSC letter clearly confirms that the FDA has to determine the device,

CTLM is not substantially equivalent, the device is marketed in interstate commerce prior to May 28, 1976. Although the FDA did not use the term rejected in the NFC letter the effect of the letter is that the company's 510K premarket notification of intent to market the device CTLM has been rejected.
Is that statement accurate?
A. I guess so, yes.
Q. What is the current status of the Imaging Diagnostic FDA applications?
A. We are waiting funding actually this week to submit to the FDA the PMA.
Q. Has the company completed its clinical trials?
A. When you submit to the FDA you don't have to finish clinical side, you have to go back to them now and they will review all your images that you have or the scans and then they'll tell you we need this many scans again and that's when you start your clinical side.
BY MR. DESMET:
Q. The question was did the company finish its clinical trials? The response was not responsive.

A. How can you finish a clinical trial, we haven't sent any in.
Q. Is the answer no then?
A. It's no, yes.
Q. Okay.
A. Thank you.
BY MS. TROTMAN:
Q. When does the company expect to file its PMA application?
A. We're never going to say to anyone anything like that, we're not going to make any kind of comment about when we gonna finish. As to make FDA and we're going to wait until the FDA give us any kind of -- it's a question of when they think they're going to have it. With a PMA we have to go to panel. O even though you finish clinical you still have to wait for the FDA to get you into panel. Panel decides if you get your approval or not. Not the FDA. The panel is consistent of all kinds of industrial people and we meet up with the FDA and all the radiologists of the FDA and the people at G.E., Simmons, Philips, they will be in that panel. And they'll review everything that we have done, and they look at the statistical analysis that we will have

prepared already, and that's when you can say when you think it's going to happen. After this I will never tell anybody anything is going to be done at a certain time. Never.
Q. What is South Ridge Partners?
A. Investors for 15 years.
Q. When did South Ridge Partners first invest?
A. 15 years ago.
Q. Has South Ridge Partners continually been investing in Imaging Diagnostic over the last 15 years?
A. Yes.
Q. At any point in time did they stop investing in the company?
A. Recently, yeah.
Q. When did they recently stop investing in the company?
A. Probably around maybe September, November.
Q. September or November of 2012?
A. Yeah.
Q. And why did they stop investing in the company then?
A. They I think they lost the hedge fund or

something and they can't -- I guess they can't get the money or whatever, I don't know.
BY MR. DESMET:
Q. How do you know this?
A. I read it in Forbes so I knew that's what happened.
BY MS. TROTMAN:
Q. Did you have a discussion with Mr. Hicks regarding this?
A. Usually I just have discussion about money, I need money.
BY MR. DESMET:
Q. The question was did you have a discussion with Mr. Hicks about this topics?
A. About that, no. No, just about money.
BY MS. TROTMAN:
Q. How did you first learn of South Ridge?
A. I told you before, Fred Hanfield in Connecticut, his company name is Spinner.
Q. Has Mr. Hicks always been connected with South Ridge Partners?
A. No, I think he has a company Charleston, LLC, out of I think the Cayman Islands, I think.
Q. What was the name of the company?
A. Charleston, LLC. Because we used to get

money from there, from them.
Q. Who is York Wong?
A. York is a CPA in Los Angeles and he got a group of his people that he does accounting for and the group gave us $1.2 million and so we gave them notes.
Q. How did you first meet Mr. Wong?
A. I never met Mr. Wong. Allan has been -- was talking to him, Allan Schwartz.
Q. How did Mr. Schwartz first get to know Mr. Wong?
A. I have no idea. Allan wouldn't tell me that.
Q. Is there a reason why Mr. Schwartz wouldn't tell you that?
A. No. He said some things -- you know, maybe he made a friend, I don't know.
Q. When did Mr. Schwartz first become associated with Mr. Wong?
A. I think it was three years ago.
Q. So that would be 2009 or 2010?
A. Ten, it has to be '10.
BY MR. DESMET:
Q. Has Mr. Schwartz met him in person?
A. You know, I don't know honestly. I don't

know. All the e-mails go back and forth with Allan and him, and the phone conversation.

BY MS. TROTMAN:

Q. Have you ever spoken with Mr. Wrong?

A. No. Wait a minute. I did one time on the phone. When he funded the 1.2 million I talked to him.

Q. When did Mr. Wong give the company $1.2 million?

A. I don't remember. It was three years ago. Because I know Steve Hicks bought most of his notes.

Q. Why did Steve Hicks buy his notes?

MR. MATHEWS: Objection.

THE WITNESS: Huh? I don't know, I really don't know.

BY MS. TROTMAN:

Q. How did it come to pass that Mr. Hicks bought Mr. Wong's notes?

A. I have no idea, that's between them.

Q. Between who?

A. Steve Hicks and Wong, whatever his name is.

Q. How did you first learn that Steve Hicks was going to buy York Wong's notes?

A. He told Allan, Allan told me.

Q. Did you have any discussions with anyone else besides Allan Schwartz about that?

A. No.

Q. Did Mr. Wong give the company $1.2 million all at the same time?

THE WITNESS: I have to answer that, I'm sorry, it may be emergency, just a moment.

MR. DESMET: I'm sorry, you can't take phone calls in the middle of testimony. Let's go off the record.

(Whereupon, a discussion was held off the record.)

MR. DESMET: Back on the record. Do you understand that you're still under oath?

THE WITNESS: What?

MR. DESMET: That you are still under oath.

THE WITNESS: Okay, yeah. I'm sorry. I had to answer because I didn't know what was wrong, you know.

BY MS. TROTMAN:

Q. Who is Julio Vietta?

A. He's my service guy, he was my service

guy, he just left.

Q. When did he leave?

A. I think he left in October.

Q. October of 2012?

A. Uh-huh.

Q. To be clear –

MR. DESMET: Was that a yes?

THE WITNESS: Yes.

BY MS. TROTMAN:

Q. To be clear, he was employed by Imaging Diagnostic Systems?

A. Yes.

Q. Are you aware of a garnishment action that was filed against Imaging Diagnostic?

A. Yeah, Allan was handling that. I'm not too familiar with that.

BY MR. DESMET:

Q. Are you aware that it exists?

A. That what?

Q. That it exists?

A. Yes.

Q. Okay. How did you find out about it?

A. I think it was Allan that was talking one day about it.

Q. What do you know about it?

A. Nothing really.

Q. That's between him personally. That's a personal thing between -- and with Julio, something happened, something to do with a house he bought for his mother and he couldn't pay now?

BY MS. TROTMAN:

Q. So do you know why a garnishment action would have been filed against the company?

MR. MATHEWS: Can I clarify? Was the company the garnishee?

THE WITNESS: I don't know why they did that. I think they got it straightened out.

MR. MATHEWS: They weren't a party to it other than they were garnishing funds that were coming from Imaging.

THE WITNESS: We weren't paying him for, you know, all the time, so he was not able to pay the mortgage in his mom's house because he gave his mom a house, he paid the mortgage on it so the bank started garnishing his paycheck when he was getting paid. So we had to write to the bank and told them that we weren't able to pay him complete payroll.

I don't know too much about it.

BY MS. TROTMAN:

Q. You stated that Julio Vietta was a service guy. Can you explain what you mean by that?

A. He does all the installations of the systems. He goes into every company, hospital and he trains the -- he's the one that sets up the system before the clinical application comes back.

BY MR. DESMET:

Q. Did he resign from Imaging?

A. He got another job, yes.

BY MS. TROTMAN:

Q. Why?

A. We were having a hard time trying to meet payroll and we -- payroll for the people and that's how, you know, one of those situations.

Q. How many people currently work for the company?

A. Now, seven.

Q. How many people worked for the company in June of 2012?

A. 23.

Q. And the people who left the company is it because they quit or were they fired?

A. No, they got different jobs. I told

everybody if they weren't satisfied waiting for the funds to come in start looking for a job, you know, because I didn't want to keep people accruing payrolls, it gets very -- when you get an investor he doesn't want to pay money, you know, that's old, he wants to put money in the company for future.

BY MR. DESMET:

Q. Was anyone terminated between January 1, 2010, and the present?

A. When?

Q. January 1, 2010.

A. January 1, 2010, I don't think so. One guy that took a job in Shanghai as a -- what they call it, for three months, but he came back to the company.

MS. TROTMAN: Can we go off the record for a minute?

(Whereupon, a recess was had.)

MS. TROTMAN: We're back on the record at 5:16.

BY MS. TROTMAN:

Q. Ms. Grable, as of right now we have no further questions at this time. However, we are going to be contacting your counsel to have a

second day of testimony in this investigation.

MS. TROTMAN: Counsel, do you wish to ask any clarifying questions at this time?

MR. MATHEWS: Not at this time. I'll reserve it until the next time we meet if there are any additional questions.

MS. TROTMAN: Ms. Grable, do you wish to add or clarify anything to the statements you've made today?

THE WITNESS: No. The only thing that I want to say is that I have doctors appointments that's very, very important Wednesday and Friday.

MR. MATHEWS: We can deal with that off the record.

MS. TROTMAN: Okay. So we're off the record at 5:18 p.m.

(Whereupon, at 5:18 p.m., the examination was concluded.)

* * * * *

PROOFREADER'S CERTIFICATE

In the Matter of: IMAGING DIAGNOSTICS, INC.
Witness: Linda Grable
File Number: FL-03764-A
Date: Monday, January 28, 2013
Location: Miami, FL

This is to certify that I, Maria E. Paulsen, (the undersigned), do hereby swear and affirm that the attached proceedings before the U.S. Securities and Exchange Commission were held according to the record and that this is the original, complete, true and accurate transcript that has been compared to the reporting or recording accomplished at the hearing.

_____ _____

(Proofreader's Name) (Date)

UNITED STATES SECURITIES AND EXCHANGE
REPORTER'S CERTIFICATE

I, MICHELLE R. PAYNE, Reporter, hereby certify that the foregoing transcript of 181 pages (January 28, 2012) is a complete, true, and accurate transcript of the testimony indicated held on January 28, 2012 at 12:00 p.m. in the matter of: IMAGING DIAGNOSTIC SYSTEMS, INC.

I further certify that this proceeding was recorded by me, and that the foregoing transcript was prepared under my direction.

Date: February 6, 2013

Official Reporter: Michelle R. Payne

Diversified Reporting Services, Inc.

_____

MICHELLE PAYNE, Court Reporter

Notary Public-State of Florida
Commission No. DD910702
Expires: September 28, 2013
Transmittal Number: M000113

Diversified Reporting Services, Inc.
1101 Sixteenth Street, N.W.
2nd Floor
Washington, DC 20036

In the Matter of: IMAGING DIAGNOSTICS, INC.
Witness: Linda Grable
File Number: FL-03764-A
Date: Monday, January 28, 2013
Location: Miami, FL

This is a letter to inform you that we do not release our tapes and notes. I do maintain them for a period of one (1) year.

Sincerely,

_____

PROOFREADER'S CERTIFICATE

In the Matter of: IMAGING DIAGNOSTICS, INC.
Witness: Linda Grable
File Number: FL-03764-A
Date: Monday, January 28, 2013
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(Proofreader's Name)

2/8/13

(Date)

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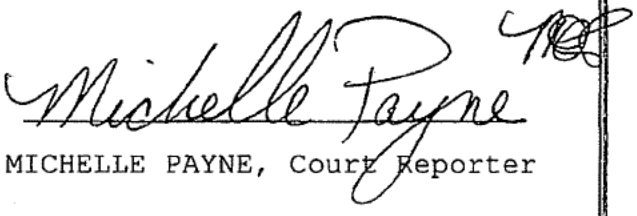

MICHELLE PAYNE, Court Reporter

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