

DECISION DIAGNOSTICS CORP  
Form 10-Q  
August 20, 2012

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

X . Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended

**June 30, 2012**

. 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: **000-29315**

**DECISION DIAGNOSTICS CORP.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**91-2105842**

(I.R.S. Employer Identification No.)

**2660 Townsgate Road, Suite 300, Westlake Village**  
**California**

(Address of Principal Executive Offices)

**91361**

(Zip Code)

**(805) 446-1973**

(Registrant's telephone number, including area code)

**Decision Diagnostics Corp.**

(Former name, former address and former fiscal year, if changed since last report)

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

Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (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

Indicate the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date: As of August 1, 2012 there were 10,905,551 shares of common stock, par value \$0.001, outstanding.



**PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS.****DECISION DIAGNOSTICS CORP.****CONDENSED CONSOLIDATED BALANCE SHEETS**

|   | June 30, 2012<br>(Unaudited) | December 31, 2011 |
|---|------------------------------|-------------------|
| Assets  |                              |                   |
| Current assets:   |                              |                   |
| Cash  | \$ 22,943                    | \$ 14,869         |
| Accounts receivable, net  | 3,269,619                    | 3,256,504         |
| Prepaid expenses  | 1,265,824                    | 1,266,576         |
| Total current assets  | 4,558,386                    | 4,537,949         |
| Other assets:   |                              |                   |
| Intellectual property   | 97,535                       | 69,535            |
| Total other assets  | 97,535                       | 69,535            |
| Total assets  | \$ 4,655,921                 | \$ 4,607,484      |
| Liabilities and Stockholders' Equity                            |                              |                   |
| Current liabilities:  |                              |                   |
| Accounts payable and accrued liabilities                        | \$ 657,242                   | \$ 222,659        |
| Accrued interest  | 147,340                      | 134,712           |
| Line of credit  | 2,114,104                    | 1,992,168         |
| Notes payable and short term debt (Note 5)                      | 182,678                      | 182,678           |
| Total current liabilities                                       | 3,101,364                    | 2,532,217         |
| Contingencies   | 278,000                      | 205,500           |
| Stockholders' equity:   |                              |                   |
| Preferred stock, \$0.001 par value, 2,247,500 shares            |                              |                   |
| authorized, 0 shares issued and outstanding                     |                              |                   |
| as of June 30, 2012 and December 31, 2011, respectively         | -                            | -                 |
| Preferred series "B" stock, \$0.001 par value, 2,500 shares     |                              |                   |
| authorized, 1,000 and no shares issued and outstanding          |                              |                   |
| as of June 30, 2012 and December 31, 2011, respectively         | 1                            | 1                 |
| Preferred series "C" stock, \$0.001 par value, 1,000,000 shares |                              |                   |

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|  |              |              |
|--|--------------|--------------|
| authorized, 1,250 shares issued and outstanding  |              |              |
|  | 1            | 1            |
| as of June 30, 2012 and December 31, 2011, respectively  |              |              |
| Preferred series "E" stock, \$0.001 par value, 1,750,000 shares  |              |              |
| authorized, 1,199,000 and 1,095,300 shares issued and outstanding  |              |              |
|  | 1,199        | 1,095        |
| as of June 30, 2012 and December 31, 2011, respectively  |              |              |
| Common stock, \$0.001 par value, 494,950,000 shares authorized, 10,905,551 and 9,307,934 shares issued and outstanding |              |              |
|  | 10,905       | 9,308        |
| as of June 30, 2012 and December 31, 2011, respectively  |              |              |
| Subscription receivable  | (68,315)     | (68,315)     |
| Additional paid-in capital   | 22,328,064   | 22,061,746   |
| Accumulated (deficit)  | (20,995,298) | (20,134,069) |
| Total stockholders' equity   | 1,276,557    | 1,869,767    |
| Total liabilities and stockholders' equity   | \$ 4,655,921 | \$ 4,607,484 |

(See accompanying notes to these condensed consolidated financial statements)

**DECISION DIAGNOSTICS CORP.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(UNAUDITED)

|   | FOR THE THREE MONTHS ENDED |            |      |           |
|---|----------------------------|------------|------|-----------|
|   | JUNE 30,                   |            |      |           |
|   | 2012                       |            | 2011 |           |
| Revenue   | \$                         | 2,320,030  | \$   | 3,896,472 |
| Cost of sales   |                            | 1,781,149  |      | 3,042,116 |
| Gross profit  |                            | 538,881    |      | 854,356   |
| Expenses:   |                            |            |      |           |
| General and administrative                            |                            | 947,101    |      | 237,369   |
| Consulting services                                   |                            | 82,346     |      | 56,466    |
| Compensation expense                                  |                            | 14,187     |      | 11,400    |
| Professional fees                                     |                            | 121,972    |      | 54,288    |
| Total Expenses  |                            | 1,165,606  |      | 359,523   |
| Net income (loss) from operations                     |                            | (626,726)  |      | 494,833   |
| Other Income (Expense):                               |                            |            |      |           |
| Financing costs                                       |                            | -          |      | (115,130) |
| Interest expense                                      |                            | (129,159)  |      | (122,382) |
| Settlement gain (loss)                                |                            | -          |      | -         |
| Total Other Income (Expense)                          |                            | (129,159)  |      | (407,512) |
| Net income (loss)                                     | \$                         | (755,885)  | \$   | 87,321    |
| Net income per share basic and diluted                | \$                         | (0.075)    | \$   | (0.00)    |
| Weighted average shares outstanding basic and diluted |                            | 10,068,677 |      | 8,390,764 |

(See accompanying notes to these condensed consolidated financial statements)



**DECISION DIAGNOSTICS CORP.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(UNAUDITED)

|   | FOR THE SIX MONTHS ENDED |             |              |
|---|--------------------------|-------------|--------------|
|   | JUNE 30,                 |             |              |
|   | 2012                     |             | 2011         |
| Revenue   | \$                       | 4,826,410   | \$ 7,019,513 |
| Cost of sales   |                          | 3,814,887   | 5,861,833    |
| Gross profit  |                          | 1,011,523   | 1,157,680    |
| Expenses:   |                          |             |              |
| General and administrative                            |                          | 1,269,351   | 514,547      |
| Consulting services                                   |                          | 189,902     | 103,760      |
| Compensation expense                                  |                          | 25,522      | 22,800       |
| Professional fees                                     |                          | 154,485     | 94,573       |
| Total Expenses  |                          | (1,639,260) | 735,680      |
| Net income (loss) from operations                     |                          | (627,737)   | 422,000      |
| Other Income (Expense):                               |                          |             |              |
| Financing costs                                       |                          | (36)        | (313,133)    |
| Interest expense                                      |                          | (215,956)   | (234,177)    |
| Settlement gain (loss)                                |                          | (17,500)    | (128,150)    |
| Total Other Income (Expense)                          |                          | (233,492)   | (675,460)    |
| Net income (loss)                                     | \$                       | (861,229)   | \$ (253,460) |
| Net income per share basic and diluted                | \$                       | (0.086)     | \$ (0.00)    |
| Weighted average shares outstanding basic and diluted |                          | 9,994,249   | 8,390,764    |

(See accompanying notes to these condensed consolidated financial statements)





**DECISION DIAGNOSTICS CORP.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(UNAUDITED)

|   | FOR THE SIX MONTHS ENDED<br>JUNE 30, |              |
|---|--------------------------------------|--------------|
|   | 2012                                 | 2011         |
| <b>CASH FLOWS FROM (TO) OPERATING ACTIVITIES:</b>                           |                                      |              |
| Net income (loss)   | \$ (861,229)                         | \$ (253,460) |
| Adjustments to reconcile net loss to net cash used in operating activities: |                                      |              |
| Shares issued for financing   | 36                                   | 113,135      |
| Shares issued for interest expense  | 80,483                               | -            |
| Shares issued for settlement  | 17,500                               | 120,000      |
| Bad debt expense  | 1,126,136                            | 351,201      |
| Shares issued for consulting fees   | 170,000                              | 77,400       |
| (Gain) on debt settlement   | -                                    | (41,850)     |
| Changes in operating assets and liabilities                                 |                                      |              |
| Accounts receivable   | (1,139,251)                          | (2,076,030)  |
| Inventory   | -                                    | (254,082)    |
| Prepaid and other assets  | 752                                  | 1,297,568    |
| Accounts payable and accrued liabilities                                    | 434,583                              | 560,885      |
| Accrued interest  | 12,628                               | 12,382       |
| Contingencies   | 72,500                               | -            |
| Net cash (used in) operating activities                                     | (85,862)                             | (92,851)     |
| <b>CASH FLOWS FROM (TO) INVESTING ACTIVITIES:</b>                           |                                      |              |
| Intellectual property   | (28,000)                             | (2,459)      |
| Net cash (used) in investing activities                                     | (28,000)                             | (2,459)      |
| <b>CASH FLOWS FROM (TO) FINANCING ACTIVITIES:</b>                           |                                      |              |
| Proceeds (payments) from line of credit, net                                | 121,936                              | 75,691       |
| Proceeds (payments) on notes payable  | -                                    | (5,732)      |
| Payments on subscriptions receivable  | -                                    | 11,685       |
| Proceeds from options exercised for cash                                    | -                                    | 30,100       |
| Net cash provided by financing activities                                   | 121,936                              | 111,744      |
| Net increase (decrease) in cash   | 8,074                                | 16,434       |
| Cash, beginning of period   | 14,869                               | 220,390      |
| Cash, end of period   | \$ 22,943                            | \$ 236,824   |

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Supplemental cash flow information:

|                            |    |   |    |         |
|----------------------------|----|---|----|---------|
| Cash paid for interest     | \$ | - | \$ | 103,716 |
| Cash paid for income taxes | \$ | - |    | -       |

Supplemental disclosure of non-cash investing and financing activities:

|  |    |         |    |        |
|--|----|---------|----|--------|
| Shares and options issued for services | \$ | 170,000 | \$ | 32,167 |
| Shares issued for financing            | \$ | 36      | \$ | 98,004 |
| Shares issued for debt settlement      | \$ | 17,500  | \$ | 41,849 |
| Shares issued for accrued interest     | \$ | 80,483  | \$ | -      |

(See accompanying notes to these condensed consolidated financial statements)

**DECISION DIAGNOSTICS CORP.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED**

**NOTE 1 BASIS OF PRESENTATION AND ACCOUNTING POLICIES**

Basis of Presentation

The condensed consolidated interim financial statements included herein, presented in accordance with United States generally accepted accounting principles and stated in US dollars, have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these consolidated interim financial statements be read in conjunction with the consolidated financial statements of the Company for the period ended December 31, 2011 and notes thereto included in the Company's Form 10-K. The Company follows the same accounting policies in the preparation of consolidated interim reports.

Results of operations for the interim periods are not indicative of annual results.

Recent Accounting Pronouncements

Management has analyzed all pronouncements issued during the three months ended June 30, 2012 by the FASB or other authoritative accounting standards groups with future effective dates, and have determined that they are not applicable or are not expected to be significant to the financial statements of the Company.

**NOTE 2 GOING CONCERN**

The accompanying consolidated financial statements have been prepared assuming that we will continue as a going concern. Our ability to continue as a going concern is dependent upon attaining profitable operations based on the development of distributions platforms through which our products that can be sold. We intend to use borrowings and security sales to mitigate the effects of our cash position, however, no assurance can be given that debt or equity financing, if required, will be available. The condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and classification of liabilities that might be necessary should we be unable to continue in existence.

NOTE 3 - LINE OF CREDIT

During the six months ended June 30, 2012, we authorized the release of an additional 124,700 shares of preferred series E stock valued at \$80,483 for accrued interest due to Alpha Credit Resources as of March 1, 2012. In addition, as a condition of authorizing the excess advance, Alpha Credit Resources required collateral in the form of our preferred series B stock, to be issued in their name and held by their legal counsel as escrow agent for this transaction. In the event of default, Centurion maintains the ability to convert the aforementioned shares into common shares at a rate of 7,143 to 1 in order to cure any potential default. The outstanding shares of this issue, if fully converted, would create 7,142,858 shares of new \$.001 par value common stock. The fair value of the underlying common shares at the date of issuance totaled \$5,900,000. As of June 30, 2012, the balance owed was \$2,114,104.

|  | JUNE 30,<br>2012 | DECEMBER 31,<br>2011 |
|--|------------------|----------------------|
| Line of credit with interest being paid in shares equal to 5% of each advance, and an additional 2% accruing monthly on the unpaid principal balance | \$ 2,114,104     | \$ 1,992,168         |

We have recorded interest and financing expense of \$215,992 and \$534,924 for the six months ended June 30, 2012 and 2011, respectively.

## NOTE 4 NOTES PAYABLE

Notes payable consisted of the following as of June 30 and December 31:

|                     |  | JUNE 30,<br>2012 | DECEMBER 31,<br>2011 |
|---------------------|--|------------------|----------------------|
| (a)                 | Convertible promissory note, bearing interest at a 15% per annum, matured on October 31, 2007, currently in default. | \$ 145,000       | \$ 145,000           |
| (b)                 | Promissory note, bearing interest at 9% per annum, maturing June 30, 2012.   | 37,678           | 37,678               |
| Total notes payable |  | \$ 182,678       | \$ 182,678           |

**a)**

In 2005, our former CEO determined that it was in the best interests of the company to borrow funds by offering a group of investor's future promises to offer convertible promissory notes to private investors. The former CEO, who had been removed by the Board as CEO at the time of this determination, broke long standing and memorialized Board approved company policy, did not receive the necessary officer approvals called for under this memorialized policy, did not receive Board approval for his actions, and never provided proof of any consideration received by the company. On August 14, 2006 the former CEO was terminated. The principal sum of these promissory notes was \$170,000. According to the terms provided to the company, who some six years later has yet to receive an executed document or note, each note holder was due their principal balance and accrued interest at an annual rate of 15% maturing in one year from the date of issuance. On March 30, 2010 after a dispute arose, we entered into a debt settlement agreement for the payment of principal of \$25,000 and accrued interest of \$15,938 for a total amount owed of \$40,938. Pursuant to the settlement agreement, we issued 300,000 shares of our common stock valued at \$34,500 and agreed to pay an additional \$15,000 in cash to the investor for a total sum of \$49,500. The excess payment of \$8,562 was recorded as interest expense. During the month of May 2012 the company entered into an additional settlement agreement requiring a one-time payment of \$5,000 cash and the issuance of 53,354 shares, for a total sum of \$22,500. As of June 30, 2012, the principal balance remaining was \$145,000 with accrued interest of \$143,815.

**b)**

On June 20, 2007, we entered into a promissory note with Invacare for the principal amount of \$160,385, bearing interest at a rate of 9% per annum and maturing on June 10, 2010. On March 4, 2011, we re-negotiated this note whereby the principal balance and accrued interest were reduced by \$35,335 and \$6,541, respectively. In addition, the maturity was extended an additional twelve months to March 2012. As a result of the amendments to the note, we recognized a gain on the settlement of debt in the amount of \$41,849. Pursuant to the amended terms of the note, we are required to make monthly principal and interest payments of \$1,900. As of June 30, 2012, the principal balance totaled \$35,335 and accrued interest was \$3,525.

We have recorded interest in connection with our notes totaling \$12,628 and \$12,386 for the six months ended June 30, 2012 and 2011, respectively.

#### NOTE 5 FAIR VALUE

Our financial instruments consist principally of notes payable and lines of credit. Notes payable and lines of credit are financial liabilities with carrying values that approximate fair value. Management determines the fair value of notes payable and lines of credit based on the effective yields of similar obligations and believe all of the financial instruments recorded values approximate fair market value because of their nature and respective durations.

We comply with the provisions of ASC 820, *Fair Value Measurements and Disclosures* ( ASC 820 ). ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements required under other accounting pronouncements. ASC 820-10-35, *Fair Value Measurements and Disclosures - Subsequent Measurement* ( ASC 820-10-35 ), clarifies that fair value is an exit price, representing the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820-10-35 also requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best information available. Assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and/or the risks inherent in the inputs to the model. The Company also follows ASC 825 *Interim Disclosures about Fair Value of Financial Instruments* , to expand required disclosures.

ASC 820-10-35 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820-10-35 are described below:

|                | Fair Value Measurements |              |         | Total Fair Value |
|----------------|-------------------------|--------------|---------|------------------|
|                | Level 1                 | Level 2      | Level 3 |                  |
| Liabilities    |                         |              |         |                  |
| Notes payable  | \$ -                    | \$ 182,678   | \$ -    | \$ 182,678       |
| Line of credit | -                       | 2,114,104    | -       | 2,114,104        |
| Total          | \$ -                    | \$ 2,296,782 | \$ -    | \$ 2,296,782     |

#### NOTE 5 STOCKHOLDER S EQUITY

We are authorized to issue up to 494,995,000 shares of \$0.001 par value common stock and 5,000,000 shares of various classes of \$0.001 par value preferred stock. In March of 2011, we amended our preferred stock designations as follows: 1) withdrawal of Series A designation on 750,000 shares of preferred stock, 2) withdrawal of Series C designation on 1,000,000 shares of preferred stock, 3) Designation of Series B on 2,500 shares of preferred stock and Series C on 10,000 shares of preferred stock, and 4) increased the number of preferred shares designated as Series E from 1,000,000 to 1,250,000. All presentation of preferred stock contained herein has been retroactively presented to reflect the 2011 amendments.

##### Series B convertible preferred stock

We have designated 2,500 shares of our \$0.001 preferred stock as Series B. Holders of series B : convertible stock shall not have the right to vote on matters that come before the shareholders. Series B convertible preferred stock may be converted, the number of shares into which one share of Series B Preferred Stock shall be convertible into common stock shares shall be 50. Series B convertible stock shall rank senior to common stock in the event of liquidation. Holders of Series B convertible stock shall not be entitled to a mandatory monthly dividend. Series B convertible stock shall have a redemptions price equal to 101% of the purchase price per share, subject to adjustments resulting from stock splits, recapitalization, or share combination.

##### Series C convertible preferred stock

We have designated 10,000 shares of our \$0.001 preferred stock as 2011 Series C. Each share of 2011 Series C Preferred stock is valued at \$10,000. Holders of series C : convertible stock shall not have the right to vote on matters



that come before the shareholders. 2011 Series C convertible preferred stock may be converted after 36 months, but not before, the number of shares into which one share of 2011 Series C Preferred Stock shall be convertible on a pro-rata basis into common stock shares, each share of common stock valued at \$.50. 2011 Series C convertible stock shall rank junior to all other classes of Preferred stock in the event of liquidation. Holders of 2011 Series C convertible stock shall not be entitled to a mandatory monthly dividend.

Series E convertible preferred stock

We have designated 1,250,000 shares of our \$0.001 preferred stock as Series E. Holders of series E convertible stock shall not have the right to vote on matters that come before the shareholders. Series E convertible preferred stock may be converted, the number of shares into which one share of Series E Preferred Stock shall be convertible into common stock shares shall be 14. Series E convertible stock shall rank senior to common stock in the event of liquidation. Holders of Series E convertible stock shall not be entitled to a mandatory monthly dividend. Series E convertible stock shall have a redemptions price equal to 101% of the purchase price per share, subject to adjustments resulting from stock splits, recapitalization, or share combination.

Series E convertible preferred stock issuances

During the six-month period ended June 30, 2012, we authorized the release of 124,700 shares of our preferred Series E stock to Alpha Credit Resources for accrued interest totaling \$80,483.

During the six-month period ended June 30, 2012, Alpha Credit Resources elected to convert 21,000 shares of their preferred series E into 294,000 shares of common stock.

### Common Issuances

On January 16, 2012, we issued 53,354 shares of our common stock to an individual pursuant to a settlement agreement for in the amount of \$17,500.

During the six months ended June 30, 2012, we issued 1,250,000 shares of our common stock to entities as consulting fees earned during the six months ended June 30, 2012. The fair value of the shares totaled \$170,000, and has been recorded as a consulting expense.

During the six months ended June 30, 2012 we authorized the issuance of 238 shares of common stock to Alpha Credit Resources as financing fees in connection with our line of credit. The fair value of the shares was \$36, and was recorded as financing costs.

### NOTE 6 OPTIONS

#### 2004 Stock Option Plan

Effective April 21, 2004, we adopted the 2004 Stock Option Plan, as amended, with a maximum number of 450,893 shares that may be issued. As of June 30, 2012, 398,104 options have been granted and exercised or expired under this plan. There are 52,789 options which remain available for issuance.

#### 2005 Merger Consolidated Stock Option Plan

On February 5, 2005, we adopted our 2005 Merger Consolidated Stock Option Plan. The maximum number of shares that may be issued pursuant to the plan is 80,357 shares. As of June 30, 2012, 77,307 shares have been granted and exercised or expired under this plan. There are 3,050 options which remain available for issuance.

#### 2006 Stock Option Plan

On December 8, 2006 we adopted our 2006 Employee Stock Option Plan, as amended and granted incentive and nonqualified stock options with rights to purchase 3,250,000 shares of our \$0.001 par value common stock. As of June 30, 2012, 2,366,582 options were granted and exercised or expired under this plan. There are 883,419 options which remain available for issuance.

The following is a summary of activity of outstanding stock options under all Stock Option Plans:

|                            | NUMBER OF<br>OPTIONS |    | WEIGHTED<br>AVERAGE<br>EXERCISE PRICE |
|----------------------------|----------------------|----|---------------------------------------|
| Balance, December 31, 2011 | 14,286               | \$ | 0.80                                  |
| Options granted            | -                    |    | -                                     |
| Options cancelled          | -                    |    | -                                     |
| Options exercised          | -                    |    | -                                     |
| Balance, June 30, 2012     | 14,286               | \$ | 0.80                                  |

#### NOTE 7 WARRANTS

The following is a summary of activity of outstanding warrants as of June 30, 2012:

|                            | NUMBER OF<br>WARRANTS |    | WEIGHTED<br>AVERAGE<br>EXERCISE PRICE |
|----------------------------|-----------------------|----|---------------------------------------|
| Balance, December 31, 2011 | 17,857                | \$ | 0.49                                  |
| Warrants granted           | -                     |    | -                                     |
| Warrants cancelled         | -                     |    | -                                     |
| Warrants exercised         | -                     |    | -                                     |
| Balance, June 30, 2012     | 17,857                | \$ | 0.49                                  |

## NOTE 8 COMMITMENTS AND CONTINGENCIES

### Leases

We currently maintain an executive office at 2660 Townsgate Road, Suite 300, Westlake Village, CA 91361. The space consists of approximately 2,300 square feet. The monthly rental for the space is \$4,140 per month on a month-to-month basis.

On June 7, 2005, we entered into an agreement for the right to use offices, warehouses and shipping facilities for the storage and shipping of pharmaceuticals located at 515 Inman Avenue, Colonia, NJ 07067 and 25 Minna Street, Rahway, New Jersey. The company may or may not continue this arrangement in the future.

Rent expense totaled \$53,940 and \$61,144 for the six months ended June 30, 2012 and 2011, respectively.

### Contingencies

We transact commerce in several medical products market channels. We also transact commerce by licensing our proprietary medical software that functions by moving clinical and financial medical data through our proprietary medical information technology devices and networks. The Our Shasta Genstrip product which we will distribute worldwide requires initial regulatory approval by the USFDA as well as on-going USFDA approvals during the product life cycle, and for the sale of this product in European Union countries, Shasta Genstrip is required to be approved by EU authorities. In addition, Shasta Genstrip required medical patient trials and will compete directly with a major platform manufacturer.

Healthcare, especially those segments where the company competes, is a very litigious. Competing companies often use litigation as a marketing tool, bringing litigation as a means to protect market share and limit market exposure. The medical industry is also intertwined. From time to time, we may become involved in claims and litigation that arise out of the normal course of business, such as litigation that emerges from disputes over damaged, missing or contaminated product, litigation that arises over payment disputes or claims of fair value. We may also become involved in disputes that arise over the business or business practices of our suppliers, payers and customers. It is not uncommon in our industry to find that identical or nearly identical claims have been filed in at least two jurisdictions involving a single transaction. The company maintains substantial insurance coverage that may provide protection against claims that may arise over issues of damaged, recalled or counterfeit product and other product liability issues. The company has also been a victim of the unapproved acts of prior management. These acts have resulted in claims from individuals and entities since the Board relieved former management of duty in 2006. Nonetheless, these claims

have resulted in the use of management time and company resources to investigate, litigate, or settle. In addition, the company accrues contingencies for claims, legal fees and product liability fees. As of June 30, 2012, our accrual was \$278,000.

From time to time, the company may also be subject to demands from individuals or entities. These demands and disputes may consume management time and company resources. Other than as noted below, if there is such a disclosure, there are no pending matters at the current time that in management's judgment may be considered potentially material to us.

#### NOTE 9 SUBSEQUENT EVENTS

In accordance with ASC 855, management evaluated all activity of the Company through the issue date of the financial statements and concluded that that described below, if any, no other subsequent events have occurred that would require recognition or disclosure in the financial statements.

## **FORWARD LOOKING STATEMENTS**

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are forward-looking statements for purposes of federal and state securities laws, including, but not limited to, any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing.

Forward-looking statements may include the words may, might, could, estimate, intend, continue, believe, anticipate or other similar words. These forward-looking statements present our estimates and assumptions only as of the date of this report. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the dates on which they are made. We do not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the dates they are made. You should, however, consult further disclosures we make in this Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and inherent risks and uncertainties. The factors influencing these risks and uncertainties include, but are not limited to the following:

.  
deterioration in general or regional economic, market and political conditions;

.  
our ability to successfully compete in the pharmaceutical supply industry;

.  
increased competitive pressures from existing competitors and new entrants;

.  
increases in interest rates or our cost of borrowing or a default under any material debt agreements;

.  
loss of customers or sales weakness;

.  
the fact that our accounting policies and methods are fundamental to how we report our financial condition and results of operations, and they may require management to make estimates about matters that are inherently uncertain;

.  
adverse state or federal legislation or regulation that increases the costs of compliance, or adverse findings by a regulator with respect to existing operations;

.  
changes in U.S. GAAP or in the legal, regulatory and legislative environments in the markets in which we operate;

.  
inability to efficiently manage our operations;

.  
inability to achieve future sales levels or other operating results;

.  
the unavailability of funds for capital expenditures;

the other risks and uncertainties detailed in this report.

### **REFERENCES**

As used in this quarterly report: (i) the terms we , us , our , Decision Diagnostics (formerly InstaCare Corp. ) and Company mean Decision Diagnostics Corp. and those operating subsidiaries, Decision IT Corp., Pharma Tech Solutions, Inc., PharmTech Direct Corp., and PDA Services, Inc. ; (ii) SEC refers to the Securities and Exchange Commission; (iii) Securities Act refers to the United States *Securities Act of 1933*, as amended; (iv) Exchange Act refers to the United States *Securities Exchange Act of 1934*, as amended; and (v) all dollar amounts refer to United States dollars unless otherwise indicated.



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

### **Overview**

Decision Diagnostics Corp. is the parent company of a nationwide prescription and non-prescription diagnostics and home testing products distribution business. The U.S. FDA, in a manner similar to prescription drugs, regulates diagnostic test kits and at-home patient testing products similarly to the regulation of prescription medicine. However, the products we distribute, for the most part, do not require a doctor's prescription for anything other than insurance benefit compliance. Our business model works well in this regulated environment.

Our subsidiaries, Pharma Tech Solutions, Inc. and PDA Services, Inc. operate in several healthcare products distribution channels. We distribute brand name prescription and non-prescription diagnostics products, as well as several lines of ostomy, wound care and post-surgery medical products. We have also continued to ready the company, subject to receipt of an expected FDA 510(k) approval, to introduce a proprietary diagnostic product, the Shasta Genstrip, for at-home testing of blood glucose, an estimated \$22.5 billion worldwide market. Shasta Genstrip will compete directly with one of the largest worldwide platform manufacturer for at-home blood glucose testing, a product currently used daily by over 3 million diabetes afflicted Americans. In anticipation of the introduction of Genstrip, currently in the FDA approval process, we have phased out sales of those brand name products that have been a backbone of our current distribution business but will, in the future, would have us compete directly with our Shasta Genstrip product. Phasing out these products lowered our order intake by approximately \$8,450,000 in FY2011 and thus far, \$6,050,000 through the period ending June 30, 2012.

Typically, and except for our Shasta Genstrip product, which is an alternative product, we distribute name brand products manufactured primarily by large U.S. and international pharmaceutical companies. The company directs its marketing efforts to ambulatory and semi-ambulatory older Americans afflicted with diabetes and complications caused by diabetes and old age. The company, originally a medical IT company with proprietary IT product lines, acquired its medical products distribution business in late 2004 through a merger with Phoenix, Arizona based CareGeneration, Inc. We have grown the original CareGeneration business through subsequent acquisitions of private businesses and strategic partnerships with larger private pharmacies.

On November 1, 2011 we completed the acquisition of Diagnostic Newco LLC from its owner Kimberly Binder. Diagnostic Newco LLC is a design company that specializes in product packaging design, medical products advertising design and graphic art. Ms. Binder has joined the staff of the company's Pharma Tech Solutions, Inc. subsidiary and will work closely with the contract manufacturer for Genstrip, making subtle changes to packaging design among other responsibilities. She will also be responsible for the package design for new diagnostic products the company is working on. We intend to acquire additional private companies, focusing on small engineering companies that have developed technology requiring either regulatory approval, distribution or both. In December 2011 we made another small acquisition, to acquire the services of Mr. Patrick DiParini. We are moving quickly to

achieve our goal of becoming a vertically integrated, full service value added provider of products and services to an ever-growing market. The at-home diabetes testing market continues to grow in excess of 20% per year where the market is expected to grow from a current \$22.5+ billion worldwide base in 2010 to over \$32 billion in 2017.

The company's current proprietary product offering, although not yet for commercial distribution, is the Shasta Genstrip blood glucose diagnostic test strip for at-home testing. Shasta Genstrip is a product conceived and designed by Shasta Technologies LLC, and fits into a diagnostic product niche and will sell into the world-wide self-test (home test) market of \$22.5 billion. The company entered into its first five year agreement for the distribution of Shasta Genstrip in early 2010. Products like Genstrip require FDA approval but travel toward this approval through a well defined albeit slow and unresponsive regulatory process. The company believes that all regulatory hurdles have been addressed and satisfied, but as of August 1, 2012 Genstrip has not received final regulatory approval or disapproval from the FDA.

In March 2012, representatives of the company and Shasta Technologies LLC met face-to-face with the FDA to ask questions and respond to FDA comments and to present its case in an effort to complete the FDA review process. Subsequently Shasta Technologies LLC and the company have received and responded to a short series of follow up questions and comments by FDA.

Since Genstrip is a unique offering, employing a razor blade only model (diagnostic test strip) into a razor (diagnostic meter)-razor blade (diagnostic test strip) market, the Genstrip 510(k) application presents some unusual challenges for the FDA and an educational challenge/opportunity for the company. Since the company plans additional similar products in the future for other diagnostic platforms, the Genstrip experience, however slow and unresponsive, has provided lessons and experience.

Two years is a standard development to market timeline for in-vitro diagnostic products used in at-home testing environments. The clinical trials were completed for Shasta Genstrip in July 2010. As a result of previous delays in completing its FDA approval application [510(k)] and then problems Shasta encountered in prosecuting its original application with FDA staff, the company changed its contractual responsibilities and obligations in June 2011 to include program management, regulatory process management, management of the manufacturing forecasting and distribution processes, and new products planning and development.

In June 2010 the company was approached by the largest retailer in the world for the distribution and sale of Genstrip at over 5,000 retail stores worldwide. A contract with this retailer was negotiated in September 2010 and subsequently renegotiated and renewed in April 2011, and as soon as the retail contract was agreed to and as a means to conduct market research, the company began assessing pre-order interest for Shasta Genstrip. While continuing its growing part in the prosecution of the 510(k) application before the FDA, it became clear that initial market interest in Shasta Genstrip outstripped the initially available manufacturing capacity. Thus the company quickly ended its pre-order initiative. Management is confident that there is a very large market available for Shasta Genstrip, which on its first day of commercial availability, will be by far the company's largest selling product.

We also offer information technology solutions in several medical care market channels by providing physicians with information at the point of care. Our products, unlike those from many other medical information companies, make use of smart cell phones such as the Apple iPhone, the Palm Pre, the Google Droid and a wide selection of Microsoft Windows based smart phones and operate in either in a wireless or wired mode, which allow physicians to carry, access and update their patients' histories, also known as electronic medical records or EMR, medication data, and best care guidelines - *all at the point of care*, or from any other location the physician may be located. In addition, the company's products employ proprietary mathematical game theory features adapted by the company for medical use that allow acceptance of diagnoses and treatment protocols where the medical information may have originated from one or several locations and one time or several times.

On February 26, 2010 we filed a full utility patent application, Management and Communications System and Method, Serial No. 13/034,639. The patent application covers one hundred four (104) separate processes and encompasses the method, system and apparatus of our software technology and the integration of our software technology into commercial computer networks through commercial smart cell phone devices. In September 2011, the USPTO published our patent application. In April 2011 the patent reached the prosecution stage with the USPTO. We expect approval in 2012. Given that our patent application lists a substantial number of claims, and that the company's technologies are truly unique, we felt it prudent to engage counsel to prosecute any of these claims against persons and entities that may have or will in the future breach our patent. The company has created an asset pool for the purpose of prosecuting any claims that may arise as a result of our patent approval. Claims prosecution is standard fare for high technology companies.

We have entered into nine partnerships with freestanding pharmacies and Durable Medical Goods distributors in the states of New York, Maryland, New Jersey, Texas and Arizona. We believe that we will be able to provide value added services to our customers by cost reductions brought about by increased efficiencies and cross marketing opportunities.

We have received multiple inquiries from companies interested in perhaps collaborating with the company for the implementation of its cell phone centric technologies MD@Hand and MD@Work. However, the market available for products similar to MD@Hand and MD@Work has changed since its introduction in 2009. The legal challenges to the ubiquitous Affordable Care Act, and the federal government's inability to enact regulations have altered the landscape, again. We remain in discussions with multiple concerns for the marketing of our MD@ products, and any agreement we may enter will require us to provide contract software programming, providing a new source of revenue for the company. In addition to any proposed partnerships, we continue to discuss alternative propositions with other interested companies ranging from clinical laboratories, service organizations owned or aligned with medical health insurers, a medical content provider and legacy healthcare systems companies. There remains sustained interest in our MD@ products and technology. All of our discussions are with companies are much larger than Decision Diagnostics. We may or may not entertain additional proposed partnerships for our implementation of the cell phone centric technologies, which has been hindered, as has the overall market, by the slow implementation of regulations, protocols and data formats by the Federal government, as well as a change in previously announced Federal government monetary incentives.

In May 2010, we entered into agreement with Shasta Technologies, Inc. and Broadtree, Inc. This agreement granted our Pharma Tech Solutions, Inc. subsidiary the exclusive marketing rights to a new diagnostic product not yet on the market named Shasta Genstrip ( Genstrip ). The Genstrip product was developed to compete against the market leader in the then \$20 billion at home testing market. In April 2011, the company renegotiated its agreement changing its many roles and adding responsibility for regulatory approval guidance, manufacturing and forecasting, international sales and additional sales markets in the U.S.

We currently employ five full-time staff at our executive office located at 2660 Townsgate Road, Suite 300, Westlake Village, California 91361. In addition, we maintain two full-time and seven part-time positions between our distribution centers located in Florida, Arizona, California and New Jersey. The company is currently hiring pharmaceutical detail representatives and three medically trained college interns across the country and three additional interns to work out of its California office.. All of our positions existing, and newly listed, are for sales and marketing, distribution, product development and customer service representatives. Our telephone number is (805) 446-1973 and our website address is [www.decisiondiagnostics.com](http://www.decisiondiagnostics.com).

**Business activities throughout the next twelve months:**

The company's business on a day-to-day basis includes the distribution of prescription and non-prescription diagnostics, at-home testing, post-surgical products, and, as soon as the FDA grants pre-market approval, the sales and distribution of Shasta Genstrip.

Beginning in November 2009, we introduced our cell-phone centric medical IT products that offer solutions in medical care and management by providing physicians with information at the point of care. Unlike other medical information systems using standard computer terminals or even palm-sized computers (PDA's), our software applications operate on a series of late generation smart e-cell phones including the Apple iPhone, the Palm Pre, the Google Droid, several makes of RIM's Blackberry and many versions of the Microsoft Windows smart phones. Our products allow physicians to access and update their patients' histories, medication data, and best care guidelines - *all at the point of care*. The company's Electronic Medical Records software is believed to be the first EMR application running on any palm sized mobile device. Recently we ported our software to run on a series of pad computers such as Apple iPad and the Droid powered pads.

Our business objectives include:

1. The practice of specializing in the distribution of brand-name medical diagnostic and medical disposable products associated with the on-going care of diabetes-inflicted patients and upon receipt of the pre-market letter from the U.S. FDA, the world-wide distribution of our new proprietary diagnostic product Shasta Genstrip.
2. Combining our wholesale and retail drug distribution with our cell phone centric technologies, creating wholesale and retail ePharmacies similar in function to existing Internet pharmacies but directed to serving the large base of underinsured and uninsured Americans; and
3. Providing medical communication and EMR medical history and storage devices based on networks of smart cell phones These products are believed to provide benefits of on demand medical information to private practice physicians, licensed medical service providers such as diagnostic testing laboratories, and medical insurers. We have created cell phone-centric products and a suite of Internet enhanced software applications

that include those features that specifically respond to the requirements of the practicing physician and the regulations currently being promulgated by the Federal government.

We also have adapted our medical communications and EMR technologies to service the real estate management and hotel/motel/convenience industries in their own commercial settings. In March 2010, our Board approved the sale of the company's hotel/motel technologies and business base so we can focus on our core medical IT and medical distribution businesses. In past years when we had market focus on the hotel/motel industry, our real estate and hotel/motel objectives include building electronic commerce networks based on personal digital assistants (PDA) and pad based computers to the hotels, motels and single building, multi-unit apartment buildings with a desire to offer local advertising and electronic services to their tenants/guests.

### **Financing Requirements**

At June 30, 2012, we had cash of \$22,943 and working capital of \$1,457,022. We anticipate that we will require \$56 million in trade debt financing to finance our expected first year sales of Shasta Genstrip. In March 2012 we renewed our agreement with Alpha Credit Resources to obtain this debt financing. Currently we do not make use of the Alpha Credit Resources credit facility. We will continue to seek a combination of equity and long-term debt financing as well as other traditional cash flow and asset backed financing to meet our financing needs and to reduce our overall cost of capital. Additionally, in order to accelerate our growth rate and to finance general corporate activities, we may supplement our existing sources of funds with financing arrangements at the operating system level or through additional short-term borrowings. As a further capital resource, we may sell or lease certain rights or assets from our portfolio as appropriate opportunities become available. However, there can be no assurance that we will be able to obtain any additional financing, on acceptable terms or at all.

**Results of Operations for the three months ended June 30, 2012 and 2011 compared.**

The following tables summarize selected items from the statement of operations for the three months ended June 30, 2012 compared to 2011.

|                                   | For the Three Months Ended |              |             |  | 3 Months | %Δ |
|-----------------------------------|----------------------------|--------------|-------------|--|----------|----|
|                                   | June 30,                   |              |             |  |          |    |
|                                   | 2012                       | 2011         |             |  |          |    |
| Revenue                           | \$ 2,320,030               | \$ 3,896,472 | (1,576,442) |  | (40.46)  |    |
| Cost of sales                     | 1,781,149                  | 3,042,116    | (1,260,967) |  | (41.45)  |    |
| Gross profit                      | 538,881                    | 854,356      | (315,475)   |  | (36.93)  |    |
| Expenses:                         |                            |              |             |  |          |    |
| General & administrative expenses | 947,101                    | 237,369      | 709,732     |  | 299.00   |    |
| Consulting                        | 82,346                     | 56,466       | 25,880      |  | 45.83    |    |
| Compensation expense              | 14,187                     | 11,400       | 2,787       |  | 24.45    |    |
| Professional fees                 | 121,972                    | 54,288       | 67,684      |  | 124.68   |    |
| Total expenses                    | 1,165,606                  | 359,523      | 806,083     |  | 224.21   |    |
| Net operating (loss)              | (626,726)                  | 494,833      | (1,121,559) |  | (226.65) |    |
| Other income (expense):           |                            |              |             |  |          |    |
| Financing costs                   | -                          | (115,130)    | 115,130     |  | 100.00   |    |
| Interest expense, net             | (129,159)                  | (122,382)    | (6,777)     |  | 5.54     |    |
| Settlement expense                | -                          | (170,000)    | 170,000     |  | 100.00   |    |
| Total other income (expense)      | (129,159)                  | (407,512)    | 278,353     |  | 68.31    |    |
| Net (loss)                        | \$ (755,885)               | \$ 87,321    | (843,206)   |  | (965.64) |    |

The following discussion should be read in conjunction with the unaudited interim condensed consolidated financial statements (including the notes thereto) included under Item 1 in this Form 10-Q.

***Revenues and cost of sales***

During the 2nd quarter of 2012, we experienced a decline in revenue compared to the same period in the previous year. We attribute the decline in revenue to the phasing out of sales of those brand name diagnostic products that will

directly compete with our new Shasta Genstrip. In addition, the overall at home testing market is being hindered by the general poor economic conditions, longer payment cycles from insurers, and because the company's business model does not include the sale of retail brand-name products. These conditions have continued into the current year. Our decrease in cost of sales is primarily the direct result of our revenue decline. However, we were able to achieve an increase in our overall gross profit margin based on our re-negotiated wholesale pricing.



### *Operational Expenses*

Operational expenses include general and administration expenses, compensation expense consulting and professional fees.

**General and administration** expenses include office expenses (including bad debt, rent, cleaning and maintenance, utilities, and telephone), insurance, and bank charges. During the 2nd quarter of 2012, general and administration expenses increased by \$709,732 to \$947,101 (2<sup>nd</sup> quarter 2011 - \$237,369). The increase was due primarily to bad debt expense of \$1,126,136. General and administration expenses normally account for approximately 2% of our total revenue and are not expected to increase significantly during the remainder of 2012 in relation to revenue. As we experience growth in revenues, general and administration expenses are expected to decrease on a percentage of revenue basis.

**Consulting expenses** during the 2nd quarter 2012 increased by \$25,880 to \$82,346 (2nd quarter 2011 - \$56,466). Historically, management shifts its labor requirements between, outside consultants, casual labor and in-house management dependent upon availability and cost effectiveness of resources. During 2012, the majority of our labor was derived from the use of outside consultants. Our compensation structure is comprised of both cash and equity of the Company.

**Professional fees** include accounting services, legal fees and regulatory reporting compliance. The increase of \$67,684 is comprised of an increase in legal fees. During the 2nd quarter of 2012, we engaged additional legal counsel to assist in the review of potential new sales/distributing agreements as well as to review general corporate matters. We anticipate our legal fees to continue until all ongoing litigation issues are resolved.

### *Other Income and Expense*

Our other income and expense includes costs related to our financing activities, more specifically the interest expense associated with our line of credit with Alpha Credit Resources, LLC. ( Alpha ). Alpha has provided us a line of credit up to \$2,500,000. The interest rate of our line of credit is 24% per annum. Interest expense increased by \$6,777 to \$129,159 (2nd quarter 2011 - \$122,382).

For the three-month periods ended June 30, 2012 and 2011, management has entered into various agreements for the settlement of the Company's historic debt obligations. As a result of these negotiated settlements, the Company's obligations have been reduced from their historical carrying amounts. In 2012, settlement losses were \$-0- as compared to settlement losses of \$170,000 in 2011. We may incur further gains or losses on debt settlement or other

settlement cost during 2012.

*Net Income (Loss)*

We recorded a net loss for the 2nd quarter of 2012 of \$755,885 compared to a net income for the 2nd quarter of 2011 of \$87,321, representing a total change of \$843,206.

**Results of Operations for the six months ended June 30, 2012 and 2011 compared.**

The following tables summarize selected items from the statement of operations for the three months ended June 30, 2012 compared to 2011.

|                                   | For the Six Months Ended |             |    |                 |             |          |
|-----------------------------------|--------------------------|-------------|----|-----------------|-------------|----------|
|                                   | 2012                     | June 30,    |    |                 |             | 2011     |
|                                   |                          |             |    | <b>6 Months</b> | <b>%Δ</b>   |          |
| Revenue                           | \$                       | 4,826,410   | \$ | 7,019,513       | (2,193,103) | (31.24)  |
| Cost of sales                     |                          | 3,814,887   |    | 5,861,833       | (2,046,946) | (34.92)  |
| Gross profit                      |                          | 1,011,523   |    | 1,157,680       | (146,157)   | (12.62)  |
| Expenses:                         |                          |             |    |                 |             |          |
| General & administrative expenses |                          | 1,269,351   |    | 514,547         | 754,804     | 146.69   |
| Consulting                        |                          | 189,902     |    | 103,760         | 86,142      | 83.02    |
| Compensation expense              |                          | 25,522      |    | 22,800          | 2,722       | 11.94    |
| Professional fees                 |                          | 154,485     |    | 94,573          | 59,912      | 63.35    |
| Total expenses                    |                          | (1,639,260) |    | 735,680         | 903,580     | 122.82   |
| Net operating (loss)              |                          | (627,737)   |    | 422,000         | (1,049,737) | (248.75) |
| Other income (expense):           |                          |             |    |                 |             |          |
| Financing costs                   |                          | (36)        |    | (313,133)       | 313,097     | (99.99)  |
| Interest expense, net             |                          | (215,956)   |    | (234,177)       | 18,221      | 7.78     |
| Gain on debt settlement           |                          | -           |    | 41,850          | (41,850)    | (100.00) |
| Settlement expense                |                          | (17,500)    |    | (170,000)       | (152,500)   | (89.71)  |
| Total other income (expense)      |                          | (233,492)   |    | (675,460)       | (441,968)   | (65.43)  |
| Net (loss)                        | \$                       | (861,229)   | \$ | (253,460)       | (607,769)   | (239.79) |

The following discussion should be read in conjunction with the unaudited interim condensed consolidated financial statements (including the notes thereto) included under Item 1 in this Form 10-Q.

***Revenues and cost of sales***

During the 2nd quarter of 2012, we experienced a decline in revenue compared to the same period in the previous year. We attribute the decline in revenue to the phasing out of sales of those brand name diagnostic products that will directly compete with our new Shasta Genstrip. In addition, the overall at home testing market is being hindered by the general poor economic conditions, longer payment cycles from insurers, market disturbance caused by Medicare's competitive bidding initiatives, and because the company's business model does not include the sale of retail brand-name products. These conditions have continued into the current year. Our decrease in cost of sales is primarily the direct result of our revenue decline. However, we were able to achieve an increase in our overall gross profit margin based on our re-negotiated wholesale pricing.

### *Operational Expenses*

Operational expenses include general and administration expenses, compensation expense consulting and professional fees.

**General and administration** expenses include office expenses (including bad debt, rent, cleaning and maintenance, utilities, and telephone), insurance, and bank charges. During the six months ended June 30, 2012, general and administration expenses increased by \$754,804 to \$1,269,351 (2011 - \$514,547). The increase was due primarily to bad debt expense of \$1,126,136. General and administration expenses normally account for approximately 2% of our total revenue and are not expected to increase significantly during the remainder of 2012 in relation to revenue. As we experience growth in revenues, general and administration expenses are expected to decrease on a percentage of revenue basis.

**Consulting expenses** during the six months ended June 30, 2012 increased by \$86,142 to \$189,902 (2011 - \$103,760). Historically, management shifts its labor requirements between, outside consultants, casual labor and in-house management dependent upon availability and cost effectiveness of resources. During 2012, the majority of our labor was derived from the use of outside consultants. Our compensation structure is comprised of both cash and equity of the Company.

**Professional fees** include accounting services, legal fees and regulatory reporting compliance. The increase of \$59,912 is comprised of an increase in legal fees. During the 2nd quarter of 2012, we engaged additional legal counsel to assist in the review of potential new sales/distributing agreements as well as to review general corporate matters. We anticipate our legal fees to continue until all ongoing litigation issues are resolved.

### ***Other Income and Expense***

Our other income and expense includes costs related to our financing activities, more specifically the interest expense associated with our line of credit with Alpha Credit Resources, LLC. ( Alpha ). Alpha has provided us a line of credit up to \$2,500,000. The interest rate of our line of credit is 24% per annum. Interest expense decreased by \$18,221 to \$215,956 (2011 - \$234,177).

For the six-month periods ended June 30, 2012 and 2011, management has entered into various agreements for the settlement of the Company's historic debt obligations. As a result of these negotiated settlements, the Company's obligations have been reduced from their historical carrying amounts. In 2012, settlement losses were \$17,500 as compared to settlement losses of \$170,000 in 2011. We may incur further gains or losses on debt settlement or other settlement cost during 2012.

### ***Net Income (Loss)***

We recorded a net loss for the six months ended June 30, 2012 of \$861,229 compared to a net loss for the six months ended June 30, 2011 of \$253,460, representing a total change of \$607,769.

### **Liquidity and Capital Resources**

A critical component of our operating plan affecting our continued existence is the ability to obtain favorable capital through additional equity and/or debt financing. We do not anticipate generating sufficient positive internal operating

cash flow until we can increase our existing market share and improve operating margins, which may take several years. In the event we cannot obtain the necessary capital to pursue our strategic plan, we may have to cease or significantly curtail our operations. This would materially impact our ability to continue operations.

The following table summarizes our current assets, liabilities and working capital at June 30, 2012 compared to December 31, 2011.

|                     |    | JUNE 30,<br>2012 |    | DECEMBER 31,<br>2011 |    | INCREASE (DECREASE) |          |
|---------------------|----|------------------|----|----------------------|----|---------------------|----------|
|                     |    |                  |    |                      |    | \$                  | %        |
| Current assets      | \$ | 4,558,386        | \$ | 4,537,949            | \$ | 20,437              | (0.45%)  |
| Current liabilities |    | 3,101,364        |    | 2,532,217            |    | (569,147)           | 22.48%   |
| Working capital     | \$ | 1,457,022        | \$ | 2,005,732            | \$ | (548,710)           | (27.36%) |

#### Cash to Operating Activities

During the six months, ended June 30, 2012, operating activities used cash of \$85,862 compared to using cash of \$92,851 in 2011. Our loss for 2012 was \$861,229 and included bad debt write-downs of \$1,126,136 (2011 - \$351,201); and consulting expenses settled with equity \$170,000 (2011 - \$77,400). Our accounts receivables have decreased by \$1,139,251 (2011 - \$2,076,030) due to a slowdown in our revenue cycle. Prepaid expenses increased by \$752 (2011 - \$1,297,568) due to capitalization in 2011 of prepaid legal fees. Accounts payable and accrued liabilities have increased by \$434,583 (2011 - \$560,885) due to a slowdown in our revenue cycle. Our contingent liabilities increased \$72,500 (2011 - \$0.00) due to the uncertainty of our involvement in legal matters.

#### Cash from Investing Activities

During the six months ended June 30, 2012, investing activities used cash of \$28,000 (2011 - \$2,459).

### **Cash from Financing Activities**

During the six months ended June 30, 2012, financing activities provided cash of \$121,936 (2011 111,744). Proceeds of \$-0- (2011 - \$41,785) were received from the issuance of common stock through exercise of options. Net interest of \$121,936 (2011 75,691) was accrued from our line of credit.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Not applicable.

### **ITEM 4. CONTROLS AND PROCEDURES.**

#### *Evaluation of Disclosure Controls and Procedures*

Our Chief Financial Officer, Keith Berman, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (the Exchange Act ). Based on that evaluation, the Company's Principal Executive Officer and Principal Financial Officer has concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective in ensuring that information required to be disclosed in our Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

#### *Changes in Internal Controls*

There has been no change in the Company's internal controls over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Internal control systems, no matter how well designed and operated, have inherent limitations. Therefore, even a system, which is determined to be effective, cannot provide absolute assurance that all control issues have been

detected or prevented. Our systems of internal controls are designed to provide reasonable assurance with respect to financial statement preparation and presentation.



## **PART II - OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS.**

We transact commerce in several medical products market channels. We also transact commerce by licensing our proprietary medical software that functions by moving clinical and financial medical data through our proprietary medical information technology devices and networks. In addition, the Shasta Genstrip product requires initial regulatory approval by the USFDA as well as on-going USFDA approvals during the product life cycle. Further, Shasta Genstrip required medical patient trials and will compete directly with a major platform manufacturer.

Healthcare, especially those segments where the company competes, is a very litigious. Competing companies often use litigation as a marketing tool, bringing litigation as a means to protect market share and limit market exposure. The medical industry is also intertwined. From time to time, we may become involved in claims and litigation that arise out of the normal course of business, such as litigation that emerges from disputes over damaged, missing or contaminated product, litigation that arises over payment disputes or claims of fair value. We may also become involved in disputes that arise over the business or business practices of our suppliers, payers and customers. In at least one instance a claimant has filed claims in two jurisdictions involving the same transaction. The company maintains substantial insurance coverage that may provide protection against claims that may arise over issues of damaged, recalled or counterfeit product and other product liability issues. The company has also been a victim of the unapproved acts of prior management. These acts have resulted in claims from individuals and entities since the Board relieved former management of duty in 2006. Nonetheless, these claims have resulted in the use of management time and company resources to investigate, litigate, or settle. In addition, the company accrues contingencies for claims, legal fees and product liability fees. As of June 30, 2012, our accrual was \$278,000.

From time to time, the company may also be subject to demands from individuals or entities. These demands and disputes may consume management time and company resources. Other than as noted below, if there is such a disclosure, there are no pending matters at the current time that in management's judgment may be considered potentially material to us.

#### **Lifescan Scotland, LLC vs. Shasta Technologies LLC, Decision Diagnostics Corp. (now known as Decision Diagnostics Corp.), Pharma Tech Solutions, Inc. et al.**

On September 9, 2011 Lifescan Scotland, Ltd. brought suit against Shasta Technologies, LLC (Shasta), InstaCare Corp. (now known as Decision Diagnostics Corp.), Pharma Tech Solutions, Inc. et al in the United States District Court, Northern District of California, San Jose Division, Case # CV11-04494-MEJ, alleging patent infringement, seeking injunctive relief and damages as a result of an alleged infringement on Patents 5,708,247 and 6,241,862. InstaCare Corp. (now known as Decision Diagnostics Corp.) and Pharma Tech Solutions have answered the

complaint, denying all of its material allegations and asserting a number of affirmative defenses. Decision Diagnostics Corp. and Pharma Tech Solutions, Inc. are entitled to be indemnified by Shasta Technologies LLC. The companies also carry insurance and have demanded a defense from its own carriers. Since the suit remains in its early stages it is too soon to determine the course of the litigation. Management intends to continue to vigorously defend this lawsuit, which it believes is without merit. The company intends to file its own counter-claims.

**ITEM 1A. RISK FACTORS.**

Not applicable.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES.**

During the six months ended June 30, 2012, we issued 575,000 shares of our restricted common stock as consulting fees for services performed for the Company valued at \$170,000. We believe that the issuance of the shares was exempt from the registration and prospectus delivery requirements of the Securities Act of 1933 by virtue of Section 4(2). The recipient of the shares was afforded an opportunity for effective access to files and records of the Company that contained the relevant information needed to make its investment decision, including the Company's financial statements and 34 Act reports. We reasonably believe that the recipient, immediately prior to issuing the shares, had such knowledge and experience in our financial and business matters that it was capable of evaluating the merits and risks of its investment. The recipient had the opportunity to speak with our president and directors on several occasions prior to its investment decision.

During the six months ended June 30, 2012, we issued 238 shares of our restricted common stock to Alpha Credit Resources as financing fees valued at \$36 in connection with our line of credit. We believe that the issuance of the shares was exempt from the registration and prospectus delivery requirements of the Securities Act of 1933 by virtue of Section 4(2). The recipient of the shares was afforded an opportunity for effective access to files and records of the Company that contained the relevant information needed to make its investment decision, including the Company's financial statements and 34 Act reports. We reasonably believe that the recipient, immediately prior to issuing the shares, had such knowledge and experience in our financial and business matters that it was capable of evaluating the merits and risks of its investment. The recipient had the opportunity to speak with our president and directors on several occasions prior to its investment decision.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. (REMOVED AND RESERVED).**

**ITEM 5. OTHER INFORMATION.**

None.

**ITEM 6. EXHIBITS**

The following exhibits are included with this Quarterly Report on Form 10-Q:

| <b>Exhibit Number</b> | <b>Description of Exhibit</b>   |
|-----------------------|---|
| 31.1                  | Rule 13a-14(a)/15(d)-14(a) Certification of Principal Executive Officer and Principal Financial Officer |
| 32.1                  | 18 U.S.C. Section 1350 Certification of Principal Executive Officer and Principal Financial Officer     |

### **SIGNATURES**

In accordance with 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.

#### **DECISION DIAGNOSTICS CORP.**

By: */s/Keith Berman*  
Keith Berman  
Chief Financial Officer and a Director  
(Principal Financial Officer and Principal Accounting Officer)

Date: August 16, 2012