MEDICAL ALARM CONCEPTS HOLDINGS INC
Form 10-Q
October 08, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2014

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: 333-153290

MEDICAL ALARM CONCEPTS HOLDING, INC.

(Exact name of registrant as specified in its charter)

NEVADA	**26-3534190**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

200 W. Church Road	
Suite B, King of Prussia, PA	**19406**
(Address of principal executive offices)	(Zip Code)

(877) 639-2929

(Registrant s telephone number, including area code)

N/A
(Former address)

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 þ

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 þ

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No þ

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

Class	Outstanding at October 8, 2014
Common Stock, $0.0001 par value per share	5,624,177 shares

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PART I.

FINANCIAL INFORMATION

ITEM 1.

FINANCIAL STATEMENTS

MEDICAL ALARM CONCEPTS HOLDING, INC.

CONSOLIDATED BALANCE SHEETS

		March 31, 2014 (Unaudited)		June 30, 2013
ASSETS				
CURRENT ASSETS				
Cash	$	2,245	$	5,857
Accounts receivable		20,910		11,607
Inventory		6,919		26,136
Prepaid expense		40,000		32,661
Total current assets		70,074		76,261
NON-CURRENT ASSETS				
Property and equipment, net		1,776		5,714
Intangible assets, net		1,118,661		1,177,538
Total non-current assets		1,120,437		1,183,252
Total assets	$	1,190,511	$	1,259,513
LIABILITIES AND STOCKHOLDRS' DEFICIT				
CURRENT LIABILITIES				
Derivative liability	$	37,243	$	2,455,628
Accounts payable		115,658		71,623
Deferred revenue		319,864		275,191
Note payable - related party		-		29,000
Note payable - other		20,000		-
Accrued expenses and other current liabilities		235,905		367,798
Convertible notes payable - current		25,908		54,330
Total current liabilities		754,578		3,253,570
NON-CURRENT LIABILITIES				

Credit line payable - related party		**-**		618,844
Patent payable		**2,500,000**		2,500,000
Convertible notes payable, net of discount		**-**		225,165
Total non-current liabilities		**2,500,000**		3,344,009
Total liabilities		**3,254,578**		6,597,579
STOCKHOLDERS' DEFICIT				
Series A Convertible Preferred Stock: $0.0001 par value; 100,000 shares authorized; 688 shares issued and outstanding as of March 31, 2014 and June 30, 2013, respectively		**-**		-
Series B Convertible Preferred Stock: $0.0001 par value; 62,500 shares authorized; 9,938 shares issued and outstanding as of March 31, 2014 and June 30, 2013, respectively		**1**		1
Common stock: $0.0001 par value; 20,000,000 shares authorized; 5,523,679 and 1,696,813 shares issued and outstanding on March 31, 2014 and June 30, 2013, respectively		**552**		170
Additional paid-in capital		**12,178,818**		9,127,788
Accumulated deficit		**(14,243,438)**		(14,466,025)
Total stockholders' deficit		**(2,064,067)**		(5,338,066)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	**$**	**1,190,511**	$	1,259,513

See accompanying notes to these unaudited consolidated financial statements.

MEDICAL ALARM CONCEPTS HOLDING, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	For the three months ended March 31,		For the nine months ended March 31,	
	2014	2013	**2014**	2013
Revenue	**$ 246,903**	$ 179,110	**$ 768,494**	$ 464,475
Cost of revenue	**51,945**	105,049	**215,556**	249,003
Gross profit	**194,958**	74,061	**552,938**	215,472
Operating expenses				
Selling expense	**47,877**	73,720	**173,106**	178,165
General and administrative	**211,255**	113,769	**1,466,521**	379,409
Total operating expenses	**259,132**	187,489	**1,639,627**	557,574
Loss from operations	**(64,174)**	(113,428)	**(1,086,689)**	(342,102)
Other (income) expenses				
Change in fair value of derivative instrument	**(53,435)**	(324,176)	**(1,508,470)**	(4,290,296)
Interest expense	**37,713**	105,356	**199,194**	490,237
Total other (income) expense	**(15,722)**	(218,820)	**(1,309,276)**	(3,800,059)
Income (loss) before income tax	**(48,452)**	105,392	**222,587**	3,457,957
Income tax provision	**-**	-	**-**	-
Net income (loss)	**$ (48,452)**	$ 105,392	**$ 222,587**	$ 3,457,957
Net income (loss) per common share - basic and diluted	**$ (0.01)**	$ 0.11	**$ 0.07**	$ 3.91
Weighted average number of common shares- basic and diluted	**5,443,607**	943,108	**3,209,382**	883,336

See accompanying notes to these unaudited consolidated financial statements.

MEDICAL ALARM CONCEPTS HOLDING, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the nine months ended March 31, 2014	2013
Net income	$ 222,587	$ 3,457,957
Adjustments to reconcile net income to net cash used in operating activities:		
Common stock issued for services	994,448	28,267
Change in fair value of derivative instrument	(1,508,470)	(4,290,297)
Amortization of patent	58,877	58,877
Non-cash interest expense	28,991	311,424
Depreciation	3,938	3,937
Change in operating assets and liabilities		
Accounts receivable	(9,303)	(54,489)
Inventory	19,217	50,771
Prepaid expenses	(7,339)	(87,684)
Accounts payable	44,035	(63,844)
Accrued expenses and other current liabilities	84,734	103,486
Deferred revenue	44,673	132,197
Net Cash Used in Operating Activities	(23,612)	(349,398)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash received from loan receivable	-	60,000
Proceeds from convertible notes	-	58,000
Proceeds from note payable other, net of repayment	20,000	-
Proceeds from issuance of common stock, net of costs	-	23,100
Deposit for stock to be issued	-	280,000
Repayment of credit line - related party	-	(10,750)
Net Cash Provided By Financing Activities	20,000	410,350
NET INCREASE (DECREASE) IN CASH	(3,612)	60,952
CASH AT BEGINNING OF PERIOD	5,857	20,577
CASH AT END OF PERIOD	$ 2,245	$ 81,529
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest expense	$ 112,500	$ 75,000
Cash paid for income taxes	$ -	$ -

Conversion of convertible notes to common stock	**$**	**314,819**	$	46,083
Derivative liability classified to additional paid-in capital upon forgiveness of warrants	**$**	**-**	$	259,443
Derivative liability classified to additional paid-in capital upon conversion of related convertible notes	**$**	**909,915**	$	792,646
Issuance of common stock against stock to be issued account	**$**	**76,900**	$	-
Forgiveness of credit line payable classified to additional paid-in capital	**$**	**618,843**	$	-
Accrued interest and debt discount classified to additional paid-in capital upon conversion and forgiveness of debt	**$**	**107,656**	$	-

See accompanying notes to these unaudited consolidated financial statements.

1.

NATURE OF OPERATIONS

On June 4, 2008, Medical Alarm Concepts Holding, Inc. (the Company) was incorporated under the laws of the State of Nevada. The Company was formed for the sole purpose of acquiring all of the membership units of Medical Alarm Concepts LLC, a Pennsylvania limited liability company (Medical LLC).

The Company utilizes new technology in the medical alarm industry to provide 24-hour personal response monitoring services and related products to subscribers with medical or age-related conditions.

2.

SUMMARY OF ACCOUNTING POLICIES

Basis of Presentation and Consolidation

The Company s consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP).

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All significant inter-company transactions and balances among the Company and its subsidiary are eliminated upon consolidation.

These interim consolidated financial statements are unaudited. In the opinion of management, all adjustments (consisting solely of normal recurring adjustments) and disclosures necessary for a fair presentation of these interim consolidated financial statements have been included. The results reported in the consolidated financial statements for any interim periods are not necessarily indicative of the results that may be reported for the entire year or any other periods. (a) The consolidated balance sheet as of June 30, 2013, which was derived from audited financial statements, and (b) the unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying footnotes included in the Company s Annual Report on Form 10-K for the year ended June 30, 2013.

Certain amounts included in prior period s financial statements have been reclassified to conform with current period presentation.

Reverse Split

On February 14, 2014, the company filed a Certificate of Change with the State of Nevada to effect a 1-for-800 reverse stock split on the issued and outstanding preferred and common stock. All relevant information relating to number of shares and warrants and per share information have been retrospectively adjusted to reflect the reverse stock split for all periods presented.

Use of Estimates

The preparation of the financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. These estimates and assumptions include the collectability of accounts receivable and deferred taxes and related valuation allowances. Certain of our estimates, including evaluating the collectability of accounts receivable, could be affected by external conditions, including those unique to our industry, and general economic conditions. It is possible that these external factors could have an effect on our estimates that could cause actual results to differ from our estimates. We re-evaluate all of our accounting estimates at least quarterly based on these conditions and record adjustments when necessary.

Inventory

The Company values inventory, consisting of purchased products, at the lower of cost or market. Cost is determined on the first-in and first-out (FIFO) method. The Company regularly reviews its inventories on hand and, when necessary, records a provision for excess or obsolete inventories based primarily on current selling price and spot market prices. The Company determined that there was no inventory obsolescence as of March 31, 2014.

Impairment of long-lived assets

The Company follows section 360-10-05-4 of the FASB Accounting Standards Codification for its long-lived assets. The Company s reviews it long-lived assets, which include property and equipment, and patent, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The Company assesses the recoverability of its long-lived assets by comparing the projected undiscounted net cash flows associated with the related long-lived asset or group of long-lived assets over their remaining estimated useful lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets. Fair value is generally determined using the asset s expected future undiscounted cash flows or market value, if readily determinable. If long-lived assets are determined to be recoverable, but the newly determined remaining estimated useful lives are shorter than originally estimated, the net book values of the long-lived assets are depreciated or amortized over the newly determined remaining estimated useful lives. The Company determined that there were no impairment of long-lived assets as of March 31, 2014.

Derivative warrant liability

The Company evaluates its convertible debt, options, warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for in accordance with paragraph 810-10-05-4 of the FASB Accounting Standards Codification and paragraph 815-40-25 of the FASB Accounting Standards Codification. The result of this accounting treatment is that the fair value of the embedded derivative is marked-to-market each balance sheet date and recorded as a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the Statement of Operations as other income or expense. Upon conversion, exercise or cancellation of a derivative instrument, the instrument is marked to fair value at the conversion date and then the related fair value is reclassified to equity.

In circumstances where the embedded conversion option in a convertible instrument is required to be bifurcated and there are also other embedded derivative instruments in the convertible instrument that are required to be bifurcated, the bifurcated derivative instruments are accounted for as a single, compound derivative instrument.

The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is re-assessed at the end of each reporting period. Equity instruments that are initially classified as equity that become subject to reclassification are reclassified to liability at the fair value of the instrument on the reclassification date. Derivative instrument liabilities will be classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument is expected within 12 months of the balance sheet date.

On January 1, 2009, the Company adopted Section 815-40-15 of the FASB Accounting Standards Codification (Section 815-40-15) to determine whether an instrument (or an embedded feature) is indexed to the Company s own stock. Section 815-40-15 provides that an entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument s contingent exercise and settlement provisions. The adoption of Section 815-40-15 has affected the accounting for certain freestanding warrants that contain exercise price adjustment features.

Fair Value of Financial Instruments

The Company follows paragraph 825-10-50-10 of the FASB Accounting Standards Codification for disclosures about fair value of its financial instruments and paragraph 820-10-35-37 of the FASB Accounting Standards Codification (Paragraph 820-10-35-37) to measure the fair value of its financial instruments. Paragraph 820-10-35-37 establishes a framework for measuring fair value pursuant to GAAP and expands disclosures about fair value measurements. To increase consistency and comparability in fair value measurements and related disclosures, Paragraph 820-10-35-37 establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three (3) broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three (3) levels of fair value hierarchy defined by Paragraph 820-10-35-37 are described below:

Level 1

Quoted market prices available in active markets for identical assets or liabilities as of the reporting date.

Level 2

Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.

Level 3

Pricing inputs that are generally observable inputs and not corroborated by market data.

The carrying amounts of the Company s financial assets and liabilities, such as cash, accounts receivable, inventory, accounts payable, deferred revenues and accrued liabilities, approximate their fair values because of the short maturity of these instruments. The Company s convertible notes payable and patent payable approximate the fair value of such instruments based upon management s best estimate of interest rates that would be available to the Company for similar financial arrangements at March 31, 2014.

The derivative liability which consists of embedded conversion feature and warrants issued in connection with our convertible debt, classified as a level 3 liability, are the only financial liabilities measured at fair value on a recurring basis.

Income Taxes

The Company accounts for income taxes under the provisions of FASB ASC Topic 740, Income Tax, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Deferred tax assets and liabilities are recognized for the future tax consequence attributable to the difference between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are measured using the enacted tax rate expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company establishes a valuation when it is more likely than not that the assets will not be recovered.

ASC Topic 740.10.30 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740.10.40 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We have no material uncertain tax positions for any of the reporting periods presented.

Revenue Recognition

The Company s revenues are derived principally from utilizing new technology in the medical alarm industry to provide 24-hour personal response monitoring services and related products to subscribers with medical or age-related conditions. The Company applies paragraph 605-10-S99-1 of the FASB Accounting Standards Codification for revenue recognition. The Company will recognize revenue when it is realized or realizable and earned. The Company considers revenue realized or realizable and earned when it has persuasive evidence of an arrangement that the services have been rendered to the customer, the sales price is fixed or determinable, and collectability is reasonably assured.

All revenues from subscription arrangements are recognized ratably over the term of such arrangements. The excess of amounts received over the income recognized is recorded as deferred revenue on the consolidated balance sheet.

Shipping and Handling Costs

The Company accounts for shipping and handling fees in accordance with paragraph 605-45-45-19 of the FASB Accounting Standards Codification. While amounts charged to customers for shipping products are included in revenues, the related costs are classified in cost of goods sold as incurred.

Stock-Based Compensation

We recognize compensation expense for stock-based compensation in accordance with ASC Topic 718. For employee stock-based awards, we calculate the fair value of the award on the date of grant using the Black-Scholes method for stock options and the quoted price of our common stock for unrestricted shares; the expense is recognized over the service period for awards expected to vest. For non-employee stock-based awards, we calculate the fair value of the award on the date of grant in the same manner as employee awards. However, the awards are revalued at the end of each reporting period and the pro rata compensation expense is adjusted accordingly until such time the nonemployee award is fully vested, at which time the total compensation recognized to date equals the fair value of the stock-based award as calculated on the measurement date, which is the date at which the award recipient s performance is complete. The estimation of stock-based awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from original estimates, such amounts are recorded as a cumulative adjustment in the period estimates are revised. We consider many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience.

Net Income per Common Share

Net income per common share is computed pursuant to section 260-10-45 of the FASB Accounting Standards Codification. Basic net income per common share is computed by taking net income divided by the weighted average number of common shares outstanding for the period. Diluted net income per common share is computed by dividing net income by the weighted average number of shares of common stock and potentially outstanding shares of common stock during the period to reflect the potential dilution that could occur from common shares issuable through stock