



INVITRO INTERNATIONAL, INC.

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2015)
with

INDEPENDENT AUDITOR'S REPORT THEREON



CERTIFIED PUBLIC ACCOUNTANTS

INVITRO INTERNATIONAL, INC.

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Independent Auditor's Report

To the Board of Directors and Shareholders
InVitro International, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of InVitro International, Inc. (the "Company"), which comprise the balance sheet as of September 30, 2016, and the related statements of comprehensive income, changes in shareholders' equity, and cash flows for the year ended September 30, 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of InVitro International, Inc. as of September 30, 2016, and the results of its operations and its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's September 30, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 7, 2016. In our opinion, the summarized comparative information presented herein for the year ended September 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PDM,LLP

Torrance, California
January 9, 2017

INVITRO INTERNATIONAL, INC.

BALANCE SHEET
SEPTEMBER 30, 2016

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	414,894
Investments		421,698
Accounts receivable, net of allowance of \$3,500		67,655
Inventories		130,742
Prepaid expenses		26,253
		<u>1,061,242</u>

PROPERTY AND EQUIPMENT, net 37,590

DEPOSITS AND OTHER ASSETS 11,996

\$ 1,110,828

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable	\$	2,738
Accrued payroll and employee benefits		32,070
Income taxes payable		2,839
Other accrued liabilities		39,326
		<u>76,973</u>

SHAREHOLDERS' EQUITY

Preferred stock, no par value; 1,000,000 shares authorized; no shares issued or outstanding		-
Common stock, no par value; 40,000,000 shares authorized; 21,953,976 shares issued and outstanding		609,630
Accumulated other comprehensive income		69,222
Retained earnings		355,003
		<u>1,033,855</u>
	\$	<u>1,110,828</u>

*The accompanying notes are an
integral part of these financial statements*

INVITRO INTERNATIONAL, INC.

STATEMENTS OF COMPREHENSIVE INCOME YEARS ENDED SEPTEMBER 30,

	<u>2016</u>	<u>2015</u>
REVENUES	\$ 884,245	\$ 994,714
EXPENSES		
Cost of revenues	188,001	190,176
Selling, general, and administrative	567,128	561,255
Research and development	12,911	17,100
	<u>768,040</u>	<u>768,531</u>
OPERATING INCOME	<u>116,205</u>	<u>226,183</u>
OTHER INCOME (EXPENSES)		
Interest and dividend income	9,094	16,084
Realized gain (loss) on securities available-for-sale	1,575	(9,367)
	<u>10,669</u>	<u>6,717</u>
INCOME BEFORE PROVISION FOR INCOME TAXES	126,874	232,900
PROVISION FOR INCOME TAXES	<u>3,971</u>	<u>800</u>
NET INCOME	<u>122,903</u>	<u>232,100</u>
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized holding gain (loss) on securities available-for-sale	18,530	(10,904)
Currency translation adjustment	1,346	(206)
	<u>19,876</u>	<u>(11,110)</u>
COMPREHENSIVE INCOME	<u>\$ 142,779</u>	<u>\$ 220,990</u>
NET INCOME PER COMMON SHARE:		
Basic	<u>\$ 0.006</u>	<u>\$ 0.011</u>
Diluted	<u>\$ 0.006</u>	<u>\$ 0.011</u>
Weighted average common shares outstanding - basic	<u>21,953,976</u>	<u>21,953,976</u>
Weighted average common shares outstanding - diluted	<u>21,953,976</u>	<u>21,953,976</u>

*The accompanying notes are an
integral part of these financial statements*

INVITRO INTERNATIONAL, INC.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	<u>Common Stock</u>		<u>Accumulated Other Comprehensive Income</u>	<u>Retained Earnings (Accumulated Deficit)</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
BALANCE, September 30, 2014	21,953,976	\$ 25,166,313	\$ 60,456	\$ (24,556,683)	\$ 670,086
Quasi reorganization at October 1, 2014	-	(24,556,683)	-	24,556,683	-
Net income	-	-	-	232,100	232,100
Other comprehensive loss	-	-	(11,110)	-	(11,110)
BALANCE, September 30, 2015	21,953,976	609,630	49,346	232,100	891,076
Net income	-	-	-	122,903	122,903
Other comprehensive income	-	-	19,876	-	19,876
BALANCE, September 30, 2016	<u>21,953,976</u>	<u>\$ 609,630</u>	<u>\$ 69,222</u>	<u>\$ 355,003</u>	<u>\$ 1,033,855</u>

*The accompanying notes are an
integral part of these financial statements*

INVITRO INTERNATIONAL, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 122,903	\$ 232,100
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	16,796	17,977
Realized (gain) loss on securities available-for-sale	(1,575)	9,367
Changes in operating assets and liabilities:		
Accounts receivable, net	26,263	(10,152)
Inventories	9,969	(12,080)
Prepaid expenses	(5,700)	(9,273)
Deposits and other assets	(819)	(4,179)
Accounts payable	(20,578)	16,224
Accrued payroll and employee benefits	13,609	(2,763)
Income taxes payable	2,839	-
Other accrued liabilities	873	5,015
Net cash flows from operating activities	<u>164,580</u>	<u>242,236</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	-	(2,961)
Purchases of investments	(42,973)	(1,065,025)
Proceeds from the sale of investments	42,062	980,249
Net cash flows from investing activities	<u>(911)</u>	<u>(87,737)</u>
Effect of foreign exchange rate on cash	<u>1,346</u>	<u>(206)</u>
Net change in cash and cash equivalents	165,015	154,293
Cash and cash equivalents, beginning of year	<u>249,879</u>	<u>95,586</u>
Cash and cash equivalents, end of year	<u>\$ 414,894</u>	<u>\$ 249,879</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for income taxes	<u>\$ 1,000</u>	<u>\$ 800</u>
Noncash investment transactions		
Net unrealized gain (loss) on securities available-for-sale	<u>\$ 18,530</u>	<u>\$ (10,904)</u>

The accompanying notes are an integral part of these financial statements

NOTE 1 - NATURE OF OPERATIONS

InVitro International, Inc. (the “Company”), headquartered in Placentia, California, was founded in 1985 and is a customer and technology-driven provider of non-animal testing methods. The Company develops and commercializes test kits and laboratory services globally. In recent years the Company has focused research and development efforts on a European regulatory submission and subsequent acceptance by the Organization for Economic Co-operation and Development (“OECD”) of its core technology, the Irritection Assay System for determining ocular irritation.

The Company’s testing technologies are designed to produce data regarding corrosivity, or ocular/dermal irritation, which correlate with animal and human test results. In late 2014, the company’s 23-Year-old corrosion testing assay, Corrositex, became Global Harmonization System (GHS) accepted as a full replacement for animal test results virtually everywhere in the world of commerce. The OECD/European Centre for the Validation of Alternative Methods (ECVAM), Transport Canada, U.S. DOT, EPA, OSHA, Consumer Product Safety Commission, FDA, and the International Air Transport Authority (IATA) all have accepted Corrositex as an alternative as well.

In late 2015, the European Regulatory Program to re-classify all chemicals used in Europe accepted the company’s 26-year-old core ocular irritancy test technology, Ocular Irritection, as a full replacement for animal testing within its GHS system. This European, several year long, program is well known as REACH (Registration, Evaluation, Authorization and Restriction of Chemicals).

Each of the above mentioned Regulatory Advancements are the result of many years in a strategic alliance with I.N.T.E.G.R.A, a division of Italy based Res Pharma. The Company partnership sells and distributes both laboratory test results and kits in Italy and 21 other markets around the world. In addition, the partnership coordinates and facilitates regulatory approvals and acceptances from authorities and agencies within the Organization for Economic Co-operation and Development (OECD). Both OECD and ECVAM continue their final stages of review for the Company’s Ocular Irritection.

“ECVAM” (European Centre for the Validation of Alternative Methods) is currently advising and reviewing the Company’s Irritection Assay System ocular test method for approval/acceptance as a substitute for animal testing on all future new cosmetic products.

As described in Note 6, quasi reorganization was implemented on October 1, 2014.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The Company prepares its financial statements based upon the accrual method of accounting, recognizing income when earned and expenses when incurred.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that may be subject to change relate to the collectability of accounts receivable, realizability of inventories, investments, and long-lived assets, and the valuation allowance on deferred tax assets.

Revenue recognition - The Company recognizes revenue for its products upon shipment of goods to its customers, and for its lab services upon the reporting of results to its customers.

Customers - The Company sells its products to independent distributors, contract laboratories, and end users in approximately ten different industries in the United States, Europe, Latin America, and Asia. The combined foreign operations generated approximately 26% and 30% of the Company's total revenues during fiscal 2016 and 2015, respectively. The Company maintains reserves for potential credit losses. Management believes that future credit losses will not be material.

The Company's two largest customers generated approximately 14% of the Company's total revenues during fiscal 2016, and 22% during fiscal 2015. The customers owe a combined \$19,125 to the Company as of September 30, 2016.

Cash and cash equivalents - The Company defines its cash and cash equivalents to include only cash on hand, demand deposits, money market fund accounts, and investments with original maturities of ninety days or less.

The Company maintains its cash and cash equivalents at financial institutions, the balances of which may, at times, exceed federally insured limits. Management believes that the risk of loss due to the concentration is minimal.

Investments - Investments in marketable securities are classified as available-for-sale and reported at fair value as determined by quoted market prices in an active market with unrealized gains and losses reported in other comprehensive income (loss). Realized gains and losses (computed by the specific identification method) are included in investment income and unrealized gains and losses on stocks are reflected as a separate component of other comprehensive income. Interest and dividend income are recorded on the accrual basis of accounting.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Fair value of financial instruments - Financial instruments primarily consist of marketable securities and interest-bearing cash. The Company estimates that the fair value of its financial instruments at September 30, 2016 do not differ materially from its aggregate carrying value. Considerable judgment is required in interpreting market data to develop the estimates of fair value and, accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

Fair value measurements - The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company measures fair value under a framework that provides 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 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Accounts receivable - Accounts receivable are stated at the amount that management expects to collect from balances outstanding at fiscal year-end. Management closely monitors outstanding balances and provides a reserve for probable uncollectible amounts through a charge to earnings and a credit to the receivables allowance accounts based on its assessments of the current status of individual accounts. At September 30, 2016, management has recorded a reserve for potentially bad debts of \$3,500.

Inventories - Inventories are stated at the lower of cost or net realizable value. Cost is determined on the first-in, first-out method. Cost includes materials, labor, and an allocable portion of direct and indirect overhead. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The Company regularly monitors inventories for excess or obsolete items and makes any valuation corrections when such adjustments are needed. Once established, write downs are considered permanent adjustments to the cost basis of obsolete or excess inventories.

Property and improvements - Property and improvements are recorded at cost and depreciated using the straight-line method over the estimated useful life. Normal repairs and maintenance are expensed as incurred. Expenditures that materially adapt, improve, or alter the nature of the underlying assets are capitalized. When property and equipment are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and the resulting gain or loss is credited or charged to income.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Patents and trademarks - The costs of patents and trademarks acquired are amortized on the straight-line method over their estimated remaining lives. The identifiable costs to develop and defend the Company's patents and trademarks are capitalized and amortized on the straight-line method over their estimated remaining lives. The unidentifiable costs to develop and defend the Company's patents and trademarks are charged to expense as incurred.

The Company is not aware of any infringing uses that could materially affect its current business or any prior claim to the patents and/or trademarks that would prevent the Company from using such patents and/or trademarks in its business. The Company's policy is to pursue registration of its patents and trademarks, whenever possible, and to oppose vigorously any infringement of its patents and/or trademarks.

Aggregate patent costs, net of accumulated amortization of \$248,257, totaled \$4,498 at September 30, 2016 and are included in deposits and other assets. Amortization expense related to patents was \$500 and \$710 during the years ended September 30, 2016 and 2015, respectively.

Capitalized software - The costs of software acquired are amortized on the straight-line method over their estimated remaining lives. Aggregate software costs, net of accumulated amortization of \$104,635, totaled \$4,088 at September 30, 2016 and are included in deposits and other assets. During both years ended September 30, 2016 and 2015, amortization expense related to software totaled \$1,179.

Long-lived assets - Management of the Company assesses the recoverability of property and equipment whenever events or changes in circumstances indicate that the historical cost carrying value of an asset may no longer be appropriate. The evaluation is performed by determining whether the depreciation and amortization of such assets over their remaining lives can be recovered through projected undiscounted cash flows. The amount of impairment, if any, is measured based on fair value and is charged to operations in the period in which such impairment is determined by management. To date, management has not identified any impairment of long-lived assets. There can be no assurance, however, that market conditions will not change or demand for the Company's products will continue, which could result in impairment of long-lived assets in the future.

Research and development - Research and development costs consist primarily of compensation and materials associated with the research and development of the Company's technologies and are expensed as incurred.

Advertising - The Company expenses advertising costs as they are incurred. Advertising costs during the years ended September 30, 2016 and 2015 amounted to \$38,608 and \$23,003, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Income taxes - The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates 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 as income in the period that includes the enactment date. A valuation allowance is provided for significant deferred tax assets when it is more likely than not that such assets will not be recovered.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than fifty percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits along with any associated interest and penalties that would be payable to the taxing authorities upon examination. As of September 30, 2016, the Company had no unrecognized tax benefits, and the Company had no positions which, in the opinion of management, would be reversed if challenged by a taxing authority.

The Company's evaluation of tax positions was performed for those tax years which remain open to audit. The Company may, from time to time, be assessed interest or penalties by the taxing authorities, although any such assessments historically have been minimal and immaterial to the Company's financial results. In the event the Company is assessed for interest and/or penalties, such amounts will be classified as income tax expense in the financial statements.

Legal - From time to time, the Company may become subject to legal proceedings, claims, and litigation arising in the ordinary course of business. The Company is not currently a party to any material legal proceedings, nor is the Company aware of any pending or threatened litigation that would have a material adverse effect on the Company's business, operating results, cash flows, or financial condition should such litigation be resolved unfavorably.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Foreign currency translation - The financial statements of the Company's foreign operations have been translated to U.S. dollars. Assets and liabilities are translated at exchange rates as of the balance sheet date. Revenues and expenses are translated at average rates of exchange in effect during the fiscal year. The translation adjustment is excluded from results of operations but is included in comprehensive income and is accumulated in a separate component of shareholders' equity. Gains and losses from foreign currency transactions denominated in a currency other than the Company or its foreign operations' local currencies are included in results of operations.

Accounting for stock-based compensation - At September 30, 2016, the Company has three stock-based employee compensation plans, which are described more fully in Note 6. The Company measures and recognizes the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value, including share-based compensation based on the grant-date fair value for all share-based payments granted prior to and not yet vested as of January 1, 2006 and share-based compensation based on the grant-date fair-value for all share-based payments granted after October 1, 2006. For non-employee stock-based compensation, the Company values the equity securities based on the fair value of the security on the date of grant. For stock-based awards the value is based on the market value of the stock on the date of the grant or the value of services, whichever is more readily available. Stock option awards are valued using the Black-Scholes-Merton option-pricing model. No stock options were granted during the years ended September 30, 2016 and 2015.

Net income per common share - The Company reports earnings per share ("EPS") with a dual presentation of basic EPS and diluted EPS on the face of the statements of comprehensive income. Basic EPS is computed as net income divided by the weighted average of common shares for the period. Diluted EPS reflects the potential dilution that could occur from common shares issued through stock options, or warrants. During fiscal years 2016 and 2015, the Company had no potentially dilutive common stock equivalents. Therefore, the basic EPS and the diluted EPS are the same.

Comprehensive income (loss) - The Company reports and displays all components of comprehensive income (loss) in a full set of financial statements. Accumulated other comprehensive income (loss) as reported in the accompanying balance sheet represents foreign currency translation adjustments and unrealized holding gains (losses) on securities available-for-sale.

Segments of an enterprise and related information - The Company currently operates in one segment.

Subsequent events - Subsequent events have been evaluated by the Company through January 9, 2017, which is the date these financial statements were issued, and no subsequent events have arisen, other than those described in these financial statements, that would require disclosure.

INVITRO INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 3 - FAIR VALUE MEASUREMENTS

The following is a description of the valuation methodologies used for the investments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

Exchange-traded funds and mutual funds - Valued at quoted market prices in an exchange and active market, which represent the net asset values of shares held by the Company at year-end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

All of the Company's assets measured at fair value on a recurring basis are classified as level 1 within the fair value hierarchy. Asset categories are disaggregated as follows at September 30, 2016:

Exchange-traded funds:	
Bond funds	\$ 167,037
Equity funds	43,933
Mutual funds:	
Bond funds	147,635
Equity funds	63,093
	<u>\$ 421,698</u>

NOTE 4 - INVENTORIES

Inventories consist of the following at September 30, 2016:

Raw materials and powder	\$ 27,113
Components	41,641
Finished goods	61,988
	<u>\$ 130,742</u>

INVITRO INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment as of September 30, 2016 consist of:

Equipment	\$	293,865
Leasehold improvements		<u>34,539</u>
		328,404
Less accumulated depreciation and amortization		<u>(290,814)</u>
	\$	<u>37,590</u>

Depreciation and amortization expense on property and equipment was \$16,796 and \$17,977 during the years ended September 30, 2016 and 2015, respectively.

NOTE 6 - SHAREHOLDERS' EQUITY

Quasi reorganization – During the year ended September 30, 2015, upon recommendation by the officers of the Company and approval by the board of directors, a corporate readjustment was implemented. The Company accumulated a deficit of \$24,556,683 prior to September 30, 2014, under previous management. The Company's prior management was replaced and reorganized from 1995 through 1999. The new management, through September 30, 2014, has modified the operational strategy successfully to enable the Company to operate in the present form which has been profitable over the past six consecutive years.

As a result, as of October 1, 2014, the Company's accumulated deficit was reduced to \$0 from \$24,556,683, and the common stock account was reduced to \$609,630 from \$25,166,313.

Common stock - There were no shares of common stock issued during the year ended September 30, 2016.

Stock option plans - The Company has three stock option plans whereby incentive stock options or nonqualified stock options may be granted to employees, directors, officers, and others to purchase shares of the Company's common stock. The aggregate shares of the Company's common stock which may be issued upon the exercise of such options shall not exceed 1,800,000 shares. The options are exercisable at prices which equal or exceed the fair value of the Company's common stock at the date of grant. The option exercise price may be payable in cash or shares of previously owned Company common stock (if any) (valued by a committee of the Board of Directors). Options granted pursuant to the plans vest and expire according to the terms of each option agreement. At September 30, 2016, these plans had no outstanding options and during the years ended September 30, 2016 and 2015, no options were granted and there was no activity pursuant to the plans.

INVITRO INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 6 - SHAREHOLDERS' EQUITY, Continued

The Company also has a stock option plan for non-employee directors under which a total of 500,000 shares of the Company's common stock can be granted. At September 30, 2016, this plan had no outstanding options, and no options were granted and there was no activity pursuant to the plan during the years ended September 30, 2016 and 2015.

Preferred stock - The Company has authorized 1,000,000 shares of preferred stock to be issued. These shares may be issued in one or more series as determined by the Board of Directors. At the time of determination, the rate of dividends (whether cumulative or non-cumulative), redemption features, and liquidation preferences will be established. At September 30, 2016, no preferred stock determinations or issuances have been authorized by the Board of Directors.

NOTE 7 - PROVISION FOR INCOME TAXES

The provision for income taxes for the years ended September 30 is comprised of the following:

	<u>2016</u>	<u>2015</u>
Current provision	\$ 3,971	\$ 800
Deferred benefit	-	-
	<u>\$ 3,971</u>	<u>\$ 800</u>

As of September 30, 2016, the significant components of the Company's net deferred tax assets are as follows:

Net operating loss carryforwards	\$ 510,000
Research and development tax credits	360,000
Allowances and other	<u>1,500</u>
	871,500
Valuation allowance	<u>(871,500)</u>
	<u>\$ -</u>

During fiscal 2016 the valuation allowance decreased by \$39,000.

The Organization utilized approximately \$131,000 in net operating loss carryforwards ("NOLs") and \$8,500 in state research tax credits to reduce their taxable income during the year ended September 30, 2016.

INVITRO INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 7 - PROVISION FOR INCOME TAXES, Continued

As of September 30, 2016, the Company had NOLs for federal reporting purposes of approximately \$1,500,000, which expire in various years through fiscal 2024. The Federal tax codes provide for restrictive limitations on the annual utilization of NOLs to offset taxable income when the stock ownership of a company significantly changes, as defined. As of September 30, 2016, the Company has research tax credits of \$360,000 for federal tax purposes and \$0 for state tax purposes. The research tax credits are available to offset future tax liabilities, if any, through 2019. Due to ownership changes which occurred in past fiscal years, the utilization of approximately \$1,200,000 of federal net operating loss carryforwards and the research tax credits are subject to annual limitations in future periods, which could substantially reduce the Company's ability to offset future taxable income. Utilization of these amounts could be further limited if additional ownership changes occur in the future.

As of September 30, 2016, the Company's federal tax returns since the 2012 tax year and state tax returns since the 2011 tax year remain open for examination by the tax jurisdictions. No tax returns are currently being examined by taxing authorities.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Operating leases - The Company leases its corporate headquarters under a non-cancelable operating lease agreement expiring in August 2019. Total rent expense for all locations in the United States was \$35,494 and \$35,494 for the years ended September 30, 2016 and 2015, respectively.

Future annual minimum payments under all operating leases for the years ending September 30 are:

2017	\$	37,922
2018		39,060
2019		<u>36,817</u>
	\$	<u>113,799</u>

INVITRO INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 8 - COMMITMENTS AND CONTINGENCIES, Continued

Indemnities and guarantees - During the normal course of business, the Company has made certain indemnities and guarantees under which it may be required to make payments in relation to certain transactions. These indemnities include certain agreements with the Company's officers, under which the Company may be required to indemnify such person for liabilities arising out of their employment relationship. In connection with its facility lease, the Company has indemnified the lessor for certain claims arising from the use of the facility. The duration of these indemnities and guarantees varies and, in certain cases, is indefinite. The majority of these indemnities and guarantees do not provide for any limitation of the maximum potential future payments the Company could be obligated to make. Historically, the Company has not been obligated to make significant payments for these obligations and no liabilities have been recorded for these indemnities and guarantees in the accompanying balance sheet.

NOTE 9 - EMPLOYEE BENEFIT PLANS

The Company sponsors a defined contribution plan covering full time employees. Employees may contribute up to the maximum 401(k) contribution allowed under the Internal Revenue Code each plan year. Employee contributions to the plan are withheld from wages and are vested 100% immediately.

The Company matches 50% of each employee's contribution up to the first 5% of their pay and all such contributions are vested immediately. The Company's contributions to the defined contribution plan for the years ending September 30, 2016 and 2015 were \$11,371 and \$8,743, respectively.

NOTE 10 - BASIC AND DILUTED INCOME PER SHARE

The following is a reconciliation of the numerators and denominators of the basic and diluted income per share computations:

	<u>2016</u>	<u>2015</u>
Numerator for basic and diluted income per share:		
Net income	\$ <u>122,903</u>	\$ <u>232,100</u>
Denominator for basic and diluted income per share:		
Weighted average shares (basic)	21,953,976	21,953,976
Common stock equivalents	<u>-</u>	<u>-</u>
Weighted average shares (diluted)	<u>21,953,976</u>	<u>21,953,976</u>

INVITRO INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 10 - BASIC AND DILUTED INCOME PER SHARE, Continued

	<u>2016</u>	<u>2015</u>
Basic and diluted income per share:		
Basic	\$ 0.006	\$ 0.011
Diluted	\$ 0.006	\$ 0.011

NOTE 11 - BUSINESS SEGMENT AND GEOGRAPHIC INFORMATION

The Company operates in one primary industry segment, providing in-vitro (non-animal) diagnostic tests to customers in the cosmetics, personal care, household products, textiles, pharmaceuticals, chemicals, and hazardous waste transportation industries.

Revenues, net income, and identifiable assets by geographic area as of September 30, 2016 and for the years ended September 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Revenues:		
United States	\$ 652,155	\$ 703,039
Other countries	<u>232,090</u>	<u>291,675</u>
	<u>\$ 884,245</u>	<u>\$ 994,714</u>
Net income:		
United States	\$ 90,644	\$ 164,002
Other countries	<u>32,259</u>	<u>68,098</u>
	<u>\$ 122,903</u>	<u>\$ 232,100</u>
Identifiable assets:		
United States	\$ 1,068,518	
Other countries	<u>42,310</u>	
	<u>\$ 1,110,828</u>	