028220 | 20

FC 25351

ACTIV FINANCIAL SYSTEMS, INC.

FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011 AND 2010

TOGETHER WITH AUDITOR'S REPORT

Dugan & Lopatka

Certified Public Accountants & Consultants
A Professional Corporation
104 East Roosevelt Road
Wheaton, Illinois 60187
(630) 665-4440
Fax (630) 665-5030
www duganlopatka.com
e-mail· info@duganlopatka.com

Michael J. Dugan
Jerry L. Lopatka
Mark F. Schultz
Peter J Zich
Leo M. Misdom

T. Brett Flickinger
Karen M. Olson
Hugh E. Elliott
James P. Hofner

Gwen S. Henry

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
ACTIV Financial Systems, Inc.:

We have audited the accompanying balance sheet of ACTIV Financial Systems, Inc. (the Company) as of December 31, 2011 and 2010, and the related statements of changes in stockholders' equity, operations and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of ACTIV Financial Systems, Inc. as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Dugan & Lopatka

DUGAN & LOPATKA

Wheaton, Illinois
March 20, 2012

ACTIV FINANCIAL SYSTEMS, INC.
BALANCE SHEET
DECEMBER 31, 2011 AND 2010

ASSETS

	2011	2010
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,028,334	$ 2,118,273
Accounts receivable, net of allowance of $150,000 and $100,000 for 2011 and 2010, respectively	5,266,041	4,082,488
Investments	219,149	218,172
Inventory	132,964	-
Refundable income taxes	34,643	945,051
Prepaid expenses	225,516	220,350
Deferred benefit taxes	1,679,000	877,000
Deposits	175,952	280,588
Total current assets	10,761,599	8,741,922
PROPERTY AND EQUIPMENT:		
Furniture and fixtures	1,105,313	1,136,569
Hardware and equipment	5,355,277	5,259,773
Customer equipment	3,818,954	3,295,910
Software	115,177	133,877
Leasehold improvements	527,018	513,548
	10,921,739	10,339,677
Less - Accumulated depreciation	(6,128,133)	(4,057,532)
Net property and equipment	4,793,606	6,282,145
OTHER ASSETS:		
Deposits	557,683	387,525
Intangibles (net of accumulated amortization)	362,970	553,856
Total other assets	920,653	941,381
	$ 16,475,858	$ 15,965,448

Kenneth Lea
Director

The accompanying notes are an integral part of this statement.

EXHIBIT 1

LIABILITIES AND STOCKHOLDERS' EQUITY

	2011	2010
CURRENT LIABILITIES:		
Notes payable -		
Line of credit	$ -	$ 368,515
Notes payable	923,074	913,961
Capital leases	600,548	699,484
Accounts payable	2,127,426	1,823,788
Accrued expenses	1,053,194	902,626
Deferred revenue	278,201	-
Deferred rent	57,850	-
Customer deposits	1,212,768	1,099,801
Total current liabilities	6,253,061	5,808,175
LONG-TERM LIABILITIES:		
Deferred income taxes	558,000	663,000
Deferred revenue, net of current amounts	354,074	-
Deferred rent, net of current amounts	110,878	-
Notes payable, net of current maturities	859,041	674,613
Capital leases, net of current maturities	211,454	812,002
Total long-term liabilities	2,093,447	2,149,615
Total liabilities	8,346,508	7,957,790
STOCKHOLDERS' EQUITY:		
Preferred stock (liquidation at lesser of original offering price plus unpaid dividends plus 18% annual incremental increase or 2.5 times the original offering price plus unpaid dividends)	302	302
Common stock	1,058	1,041
Additional paid-in capital	28,683,676	27,233,647
Retained earnings (deficit)	(20,555,686)	(19,227,332)
Total stockholders' equity	8,129,350	8,007,658
	$ 16,475,858	$ 15,965,448

Kenneth Lea
Director

EXHIBIT 2

ACTIV FINANCIAL SYSTEMS, INC.
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Common Stock	Preferred Stock	Additional Paid-In Capital	Retained Earnings (Deficit)	Total
Balance at January 1, 2010	$ 1,041	$ 302	$ 27,233,647	$ (16,188,658)	$ 11,046,332
Net loss	-	-	-	(3,038,674)	(3,038,674)
Balance at December 31, 2010	1,041	302	27,233,647	(19,227,332)	8,007,658
Issued common stock	17	-	1,450,029	-	1,450,046
Net loss	-	-	-	(1,328,354)	(1,328,354)
Balance at December 31, 2011	$ 1,058	$ 302	$ 28,683,676	$ (20,555,686)	$ 8,129,350

Kenneth Lea
Director

The accompanying notes are an integral part of this statement.

ACTIV FINANCIAL SYSTEMS, INC.
STATEMENT OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
LICENSE, DATA FEED AND OTHER REVENUES	$ 42,908,954	$ 36,847,153
COST OF DATA ACCESS AND EQUIPMENT	20,174,017	18,286,727
GROSS MARGIN	22,734,937	18,560,426
OPERATING EXPENSES:		
Selling and marketing	2,981,330	3,107,736
Salaries and benefits	14,656,310	13,843,926
Rent, utilities and telephone	2,328,161	1,850,853
Other general and administrative	1,215,891	1,552,493
Depreciation	3,600,881	2,891,643
Total operating expenses	24,782,573	23,246,651
Loss from operations	(2,047,636)	(4,686,225)
OTHER INCOME (EXPENSES):		
Interest income	3,673	11,556
Interest expense	(156,446)	(138,434)
Net other expenses	(152,773)	(126,878)
LOSS BEFORE INCOME TAXES	(2,200,409)	(4,813,103)
INCOME TAX BENEFIT	(872,055)	(1,774,429)
NET LOSS	$ (1,328,354)	$ (3,038,674)

The accompanying notes are an integral part of this statement.

EXHIBIT 4

ACTIV FINANCIAL SYSTEMS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,328,354)	$ (3,038,674)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation expense	3,403,110	2,891,643
Amortization expense	197,771	-
Deferred income taxes	(907,000)	(891,000)
Change in assets and liabilities:		
(Increase) in accounts receivable	(1,183,553)	(473,039)
(Increase) in inventory	(132,964)	-
Decrease in refundable income taxes	910,408	221,695
(Increase) in prepaid expenses	(5,166)	(62,289)
(Increase) decrease in deposits	(65,522)	28,886
Increase (decrease) in accounts payable	303,638	(2,324,085)
Increase in accrued expenses	150,568	17,779
Increase in deferred revenue	632,275	-
Increase in deferred rent	168,728	-
Increase (decrease) in customer deposits	112,967	(176,650)
Net cash provided by (used in) operating activities	2,256,906	(3,805,734)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of certificate of deposit	(977)	(1,095)
Purchases of intangible assets	(6,885)	(586,436)
Purchases of property and equipment	(1,914,571)	(3,286,437)
Net cash (used in) investing activities	(1,922,433)	(3,873,968)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Line of credit (repayment)	(368,515)	(163,984)
Notes payable - Borrowings	1,250,000	2,200,000
- Payments	(1,056,459)	(797,498)
Capital leases, payments	(699,484)	(553,988)
Issuance of common stock	1,450,046	-
Payments to shareholders under stock redemption agreement	-	(1,574,693)
Net cash provided by (used in) financing activities	575,588	(890,163)
NET CHANGE IN CASH AND CASH EQUIVALENTS	910,061	(8,569,865)
CASH AND CASH EQUIVALENTS, Beginning of the year	2,118,273	10,688,138
CASH AND CASH EQUIVALENTS, End of the year	$ 3,028,334	$ 2,118,273
NON-CASH INVESTING AND FINANCING TRANSACTIONS:		
Financed purchase of equipment under capital lease agreements	$ -	$ 1,801,645
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 156,446	$ 138,434
Cash received for income taxes	$ (875,463)	$ (1,105,124)

The accompanying notes are an integral part of this statement.

ACTIV FINANCIAL SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

ACTIV Financial Systems, Inc. (the Company) provides financial information services, content and technology to the global capital markets industry. The Company was incorporated in 2002 and has offices in Chicago, Illinois; Wheaton, Illinois; New York, New York; Secaucus, New Jersey; London, UK; Tokyo, Japan; and data centers in Chicago, Illinois, Singapore, Hong Kong, Frankfurt and London.

The financial statements were available to be issued on March 20, 2012, with subsequent events being evaluated through this date.

Cash and Cash Equivalents -

The Company considers all highly liquid instruments with an original maturity of three months or less as cash equivalents.

Investments -

The Company's investments consist of certificates of deposit.

Accounts Receivable -

Accounts receivable are reported at the amount management expects to collect from outstanding balances. Differences between the amount due and the amount management expects to collect are reported in the results of operations of the year in which those differences are determined, with an offsetting entry to a valuation allowance for trade accounts receivable. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. Management considers accounts receivable delinquent when payment has not met specific contractual terms, which primarily are net 30 days. The Company does not accrue interest on any of its accounts receivable.

Inventory -

Inventories are stated at the lower of cost or market value with cost determined using primarily the average cost method. Inventories consist of printed circuit boards and other equipment sold only to the clients that purchase their services. Shipping and handling costs are recognized upon shipment of inventories and are included in cost of goods sold in the statement of operations.

Foreign Currencies -

Transactions in foreign currencies are translated at the exchange ruling at the date of the transaction. Aggregate foreign currency transaction gains or losses are included in net income.

Property and Equipment -

The Company follows the practice of capitalizing all expenditures for fixed assets in excess of $1,000. Depreciation is provided over the estimated useful life of the assets ranging from 3 to 10 years using the straight-line method.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Intangible Assets -

Intangible assets subject to amortization include printed circuit board prototype costs. Prototype costs are being amortized on a straight-line basis over three years. Intangible assets are also reviewed for impairment when events or changes in circumstances indicate that the carrying value of the intangible assets might not be fully recoverable. Recoverability is determined based on an estimate of the expected future undiscounted cash flows of the intangible assets.

Advertising -

The Company expenses advertising expenses as they are incurred. Advertising expense for the years ended December 31, 2011 and 2010 was $1,668 and $41,589, respectively.

Research and Development -

Research and development costs incurred in connection with the purchases and development of the printed circuit board prototypes were expensed as incurred. Research and development costs for the years ended December 31, 2011 and 2010 were approximately $-0- and $1,145,000, respectively. Amounts are included in the statement of operations, salaries and benefits expenses.

Revenue Recognition -

The Company recognizes contract revenues and obligations only when earned or incurred. The Company enters into license contracts with its customers over various periods, the most common of which is twelve months. The Company receives the first and last months' licensing fees in advance, which it records as a customer deposit liability until the amounts are earned.

In April, 2005, the Company entered into a five-year revenue sharing agreement with an unrelated party. The agreement has an automatic renewal option for another two years. Under the agreement, the Company has granted rights to sell ACTIV products in Canada and elsewhere under certain revenue sharing and other terms and conditions.

The Company has equipment purchased and installed at its client's locations to support the delivery of ACTIV's services Title and ownership of the hardware reside with ACTIV. At the end of use period of 12 to 36 months, the hardware is returned to ACTIV. The infrastructure cost is a pass-through to its clients who are required to pay these costs upon established terms which may or may not be the same as the use period. The purchase cost of the hardware is capitalized and depreciated over three year's term. The revenue is recognized over the client's use period. As of December 31, 2011, $632,275 of receipts related to customer equipment is recorded as deferred revenue.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Income Taxes -

Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The provision for income taxes is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

The Company files income tax returns in the U.S. federal jurisdiction, Great Britain, Japan, Illinois, New York, and New Jersey. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2008. The Company does not expect a material net change in unrecognized tax benefits in the next twelve months.

Estimates -

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Common Stock and Preferred Stock -

The Company has 10,000,000 authorized shares of common stock, $0.001 par value per share. Common shares issued and outstanding were 1,058,787 and 1,041,496 at December 31, 2011 and 2010, respectively.

Preferred Stock -

The Company has 302,038 authorized shares of preferred stock, $0.001 par value per share. All preferred shares are designated as Series A Convertible Redeemable Preferred Stock.

Preferred shares issued and outstanding at December 31, 2011 and 2010 were 302,038.

Preferred stockholders have the first right to receive dividends on each outstanding share of Series A Preferred Stock when dividends are declared for common stockholders. Dividends payable to preferred stockholders are computed by multiplying the number of common shares obtained from conversion of preferred shares based on the formula explained below with dividend payable per common share.

Preferred shares can be converted into the number of fully paid shares of common shares obtained by multiplying the number of shares of Series A Preferred Stock to be converted by the Original Offering Price per share and dividing the result by the Conversion Price in effect at the time of the conversion. The Conversion Price is defined as the original purchase price of $83.8468 adjusted for certain events as more specifically described in the Certificate of Designation, Preferences and Other Rights of Series A Convertible Redeemable Preferred Stock Agreement.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

For 2011 and 2010, the conversion ratio is 1:1 for an initial offering price equal to the conversion price of $83.84.

Preferred shares are automatically converted into common shares at the applicable conversion price immediately upon occurrence of the closing of a qualified public offering of common shares or upon written consent of holders of more than 50% of the outstanding shares of preferred shares.

The Board of Directors of the Company is authorized to issue Preferred Stock from time to time in one or more classes or series thereof, each such class or series to have such voting powers (if any), conversion rights (if any), designations, preferences and relative, participating, optional or other special rights, and such qualifications, limitations or restrictions thereof as shall be determined by the Board of Directors and stated and expressed in a resolution or resolutions thereof providing for the issuance of such Preferred Stock. There was no issuance or conversion of preferred stock during the years ended December 31, 2011 and 2010.

Stock Options -

The Company accounts for employee and non-employee stock options under the fair value method of accounting using a Black-Scholes valuation model to measure the stock option expense at the date of grant. Compensation cost associated with employee stock options is recognized over the service period beginning on the grant date. Compensation cost for performance based stock options are accrued if it is probable that the performance condition will be achieved. No compensation costs were accrued for the years ended 2011 and 2010. The expense associated with non-employee stock options is recognized at the grant date.

(2) INTANGIBLES:

Intangible assets consist of the following:

	2011	2010
Printed circuit board prototype	$ 593,321	$ 586,436
Less - Accumulated amortization	(230,351)	(32,580)
	$ 362,970	$ 553,856

Total amortization expense amounted to $197,771 and $32,580 in 2011 and 2010, respectively. Intangible assets are being amortized over their estimated useful lives. Estimated future amortization expense is as follows:

Year ending December 31,	
2012	$ 197,774
2013	165,194

(3) COMMITMENTS:

Hosting and Network Commitments -

The Company has entered into various agreements with data content and communication providers which range in length from 12 to 36 months. Based on contracts at December 31, 2011, the estimated future contractual commitments are approximately $7,200,000 per year.

Operating Leases -

The Company leases office space with various unrelated parties. The operating leases expire at various dates through 2019. Under the lease agreements, the Company is responsible for its share of real estate taxes, insurance, and maintenance costs for the buildings.

During the year ended December 31, 2011, the Company entered into certain lease agreements that provide for free periods of rent. The Company records rent on a straight-line basis, which does not necessarily equal the amount of rent payments made to the lessor. As a result, the Company has accrued $168,728 representing rent expense in excess of rent payments made as of December 31, 2011.

Total rent expense for the years ended December 31, 2011 and 2010 was $1,974,517 and $1,534,873, respectively Minimum lease payments are as follows:

Year ending December 31,	
2012	$ 1,621,380
2013	1,612,400
2014	1,442,567
2015	1,274,060
2016	776,326
Thereafter	1,466,703

Capital Leases -

The Company has acquired equipment under capital leases which requires $71,000 aggregate monthly payments over 24 to 36 months. The following is a schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2011:

Year ending December 31,	
2012	$ 645,170
2013	226,812
Total minimum lease payments	871,982
Less - Amount representing interest	(59,980)
Present value of net minimum lease payments	$ 812,002

The leased equipment, included in property and equipment had a net book value of approximately $812,002 and $1,544,000 at December 31, 2011 and 2010, respectively.

(4) NOTES PAYABLE:

	2011	2010
Notes payable to bank:		
Payable in monthly installments of principal and interest of $10,757, due in June, 2011, bearing interest at 5%, and secured by equipment.	$ -	$ 63,607
Payable in monthly installments of principal and interest of $30,602, due in February, 2012, bearing interest at 4.5%, and secured by equipment.	60,926	415,824
Payable in monthly installments of principal and interest of $45,558, due in February, 2013, bearing interest at 4.5%, and secured by equipment.	614,704	1,109,143
Payable in monthly installments of principal and interest of $32,264, due in January, 2015, bearing interest at 4.5%, and secured by equipment.	1,106,485	-
	1,782,115	1,588,574
Less - Current maturities	(923,074)	(913,961)
	$ 859,041	$ 674,613

The future payments under notes payable as of December 31, 2011:

2012	$ 923,074
2013	442,382
2014	368,404
2015	48,255
	$ 1,782,115

The Company must maintain compliance with certain financial and nonfinancial covenants, as defined in the notes agreements. At December 31, 2011 and 2010, the Company was in compliance with the covenants.

(5) LINE OF CREDIT:

The Company had a line of credit with a commercial bank that provided for a maximum borrowing of $1,250,000, bearing interest at the 30-day LIBOR rate plus 1%, minimum 4.5% and collateralized by equipment. The outstanding balance as of December 31, 2010 was $368,515. During the year 2011, the full balance of line of credit was paid off.

(6) LETTERS OF CREDIT:

The Company has guaranteed two separate letters of credit totaling $209,855 outstanding at December 31, 2011 and 2010 with certificates of deposit in the same amount deposited at a bank. The letters of credit are issued to the Company's New York landlords and are renewed annually. The certificates of deposit are classified as a current investment.

(7) OTHER COMMITMENTS:

During 2009, the Company entered into a five-year agreement with a three-year renewal option to provide fully managed market data services for one client. The services will be provided in three phases which are broken down by use. Each phase is implemented by separate service orders executed by both parties. Fixed annual fees for the three phases are summarized below:

Phase I – Low Latency Service	$ 516,000
Phase II – Internet Streaming	2,177,000
Phase III – Snap Services	1,131,000

All other fees incurred by the Company for provision of these services such as bandwidth, hardware, hosting etc. will be billed separately. Fees also exclude software customization that is to be paid on a time and material basis. As of December 31, 2010, phase I and II were executed. As of December 31, 2011 all three phases were completed.

(8) INCOME TAXES:

The provision (benefit) for income taxes for the years ended December 31, 2011 and 2010 is summarized as follows:

	2011	2010
Current:		
Federal	$ 33,967	$ (802,951)
State and city	978	(80,478)
Foreign	-	-
Deferred:		
Federal	(838,700)	(711,950)
State	(68,300)	(179,050)
	$ (872,055)	$(1,774,429)

A reconciliation of the provision for income taxes to the U.S. federal income tax rate of 34% is as follows:

	2011	2010
Income benefit at statutory rate	$ (748,139)	$(1,636,456)
State, city and foreign income tax expense (benefit), net of federal tax effect	(139,279)	(159,668)
Nondeductible expenses and other	15,363	21,695
	$ (872,055)	$(1,774,429)

(8) INCOME TAXES: (Continued)

Deferred tax assets (liabilities) are comprised of the following at December 31, 2011 and 2010:

	2011	2010
Current:		
Net operating loss carryforwards	$ 1,493,000	$ 1,052,000
Accrual to cash adjustment	-	(201,000)
Allowance for doubtful accounts	40,000	20,000
Accrued expenses	146,000	6,000
	1,679,000	877,000
Long term:		
Accumulated depreciation	(700,000)	(805,000)
Deferred compensation - stock options	142,000	142,000
	(558,000)	(663,000)
	$ 1,121,000	$ 214,000

Deferred taxes are recognized for temporary differences between the basis of assets and liabilities for financial statement and income tax purposes. The differences relate primarily to using the cash basis of accounting for income tax purposes (in prior years), depreciation, deferred tax deductibility for stock options expense, and the allowance for doubtful accounts.

The Company's provision for income taxes differs from applying the statutory U.S. federal income tax rate to income before income taxes. The primary differences result from providing for state income taxes and from deducting certain expenses for financial statement purposes but not for federal income tax purposes.

The Company has approximately $3,800,000 of federal net operating loss carryforwards available to offset future taxable income. The carryforwards expire in 2030-2031. The Company also has various state net operating loss carryforwards available to offset future taxable income totaling approximately $5,300,000. The majority of net operating losses are in Illinois and cannot be used until 2014 and expire in 2034.

(9) EMPLOYEE BENEFITS:

The Company participates in a 401(k) retirement plan covering full-time employees meeting a one-year waiting period. During the years ended December 31, 2011 and 2010, there were no matching contributions from the Company.

(10) CONCENTRATIONS:

Credit Risk -

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash. The Company places its cash and deposits with high credit quality financial institutions; however, deposits may exceed the federally insured limits.

(10) CONCENTRATIONS: (Continued)

Vendors -

A total of 24% of the data access and exchange fees were purchased from two providers in 2010. Accounts payables for the two vendors totaled to 27% of total trade payables at December 31, 2010.

A total of 11% of the data access and exchange fees were purchased from one provider in 2011. Accounts payables for the one vendor totaled to 16% of total trade payables at December 31, 2011.

Customers -

As of December 31, 2010, a total of 14% of sales revenue was from one customer. Accounts receivable balance for that customer was 29% of total trade receivable. As of December 31, 2011, a total of 18% of sales revenue was from one customer. Accounts receivable balance for that customer was 29% of total trade receivable.

(11) EMPLOYEE STOCK OPTIONS:

The Company has a Nonqualified Stock Option Plan (the Plan) which was implemented by the Board in May, 2004. The options under the Plan may be granted to employees based on the performance of the Company and employee performance against certain targets. The targets have to be met before the options are granted. The Company believes that such awards better align the interests of its employees with those of its shareholders. Option awards are generally granted with an exercise price equal to the estimated fair value of the Company's stock at the date of grant; those option awards generally vest based on two years of continuous service and have 10-year contractual terms.

The Company was required to adopt the provisions of Accounting Standards Codification (ASC) topic 718, *Share-Based Payment* effective January 1, 2006. The Company accounts for stock option awards using the fair value method. Prior to 2006, the Company used the fair value method permitted by ASC, *Accounting for Stock-Based Compensation* to account for stock options granted to employees. The Company had elected the disclosure-only provisions and, accordingly, did not recognize compensation expense for stock option grants prior to 2006.

The provisions of ASC-*Share-Based Payment* are applicable to stock options awarded by the Company beginning in 2006. Under ASC-*Share-Based Payment*, the Company is required to recognize compensation expense for options granted in 2006 and thereafter. The Company used the modified prospective application transition method in adoption of ASC-*Share-Based Payment*. Under this transition method, the Company was also required to recognize compensation expense for the portion of awards granted before 2006 for which the requisite service had not been rendered. All awards granted before 2006 were fully vested, therefore, no compensation expense needs to be recognized for awards granted prior to 2006.

The fair value of each option award is estimated on the date of grant using the Black-Scholes valuation model that uses the assumptions noted in the following table. Management estimates the expected volatility of its share price using the volatility index for a publicly traded company in the same industry. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield in effect at the time of grant.

(11) EMPLOYEE STOCK OPTIONS: (Continued)

Using the Black-Scholes option pricing model, management has determined that the options issued in 2007 have a calculated value of $11.89 per share. There were no employee stock options issued in 2008, 2009, 2010 and 2011. Total compensation cost associated with these options is $65,395 and was recognized over the two-year service period that began on the grant date and ending in 2009. No compensation cost was recognized in 2011 and 2010.

Assumptions used in the Black-Scholes model are as follows:

Expected volatility	38%
Expected term (in years)	10
Risk-free rate	5.13%
Weighted average calculated value of option granted	$11.89

A summary of option activity under the Plan as of December 31, 2011 and 2010, and changes during the years then ended is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at January 1, 2010	33,000	$ 12	5
Granted	-	-	-
Exercised	-	-	-
Forfeited or expired	-	-	-
Outstanding at January 1, 2011	33,000	12	4
Granted	-	-	-
Exercised	-	-	-
Forfeited or expired	-	-	-
Outstanding at December 31, 2011	33,000	12	4
Exercisable at December 31, 2011	33,000	$ 12	4

As of December 31, 2011 and 2010, all employee stock options were vested and exercisable.

(12) NON-EMPLOYEE STOCK OPTIONS:

The Company has an agreement to grant stock options to an unrelated party based on performance against certain targets. The targets have to be met before the options are granted. Option awards are generally granted with an exercise price equal to the fair value of the Company's stock at the date of grant. The stock option awards are exercisable two years after the grant date for a period of five years.

The Company applies ASC, *Accounting for Stock Based Compensation and Accounting for Equity Instruments that are Issued to Other Than Employees* and related interpretations in accounting for its non-employee stock options.

(12) NON-EMPLOYEE STOCK OPTIONS: (Continued)

The Company accounts for stock options granted to non-employees using the fair value of the stock options. The fair value of each option award is estimated on the date of grant using the Black-Scholes valuation model that uses the assumptions noted in the following table. Management estimates the expected volatility of its share price using the volatility index for a publicly-traded company in the same industry. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield in effect at the time of grant.

Using the Black-Scholes option pricing model, management has determined that the options issued in 2008 have a calculated value of $15.96 per share. Total commission expense associated with these options of $319,180 recognized during the year ended December 31, 2008.

Assumptions used in Black-Scholes model are as follows:

Expected volatility	47.41%
Expected term (in years)	7
Risk-free rate	1.62%
Weighted average calculated value of option granted	$15.96

A summary of option activity under the Plan as of December 31, 2011, and changes during the year then ended is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at January 1, 2010	20,000	$ 31.84	5
Granted	-	-	-
Exercised	-	-	-
Forfeited or expired	-	-	-
Outstanding at January 1, 2011	20,000	31.84	4
Granted	-	-	-
Exercised	-	-	-
Forfeited or expired	-	-	-
Outstanding at December 31, 2011	20,000	$ 31.84	4
Exercisable at December 31, 2011	20,000	$ 31.84	4

All non-employee stock options outstanding at December 31, 2011 and 2010 were vested.

(13) PERFORMANCE BASED STOCK OPTIONS:

At December 31, 2011 and 2010, the number of common shares which could be granted to employees is -0- and 10,000, respectively, based upon each employee meeting certain sales targets in 2012.