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Alacra, Inc.

Consolidated Financial Report

December 31, 2013

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Independent Auditor's Report

To the Shareholders and Board of Directors
Alacra, Inc
New York, New York

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Alacra, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alacra, Inc. and its subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America

McGladrey LLP

New York, New York
June 30, 2014

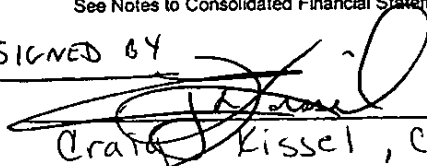
Alacra, Inc.

Consolidated Balance Sheets
December 31, 2013 and 2012

	2013	2012
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 809,918	\$ 136,966
Accounts receivable, net	2,034,854	2,670,855
Other current assets	1,000,698	774,899
Total current assets	3,845,470	3,582,720
Fixed Assets, net	288,060	275,021
Security Deposits	44,982	39,244
Total assets	\$ 4,178,512	\$ 3,896,985
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current Liabilities		
Accounts payable and accrued expenses	\$ 958,484	\$ 1,009,044
Deferred revenue	4,987,586	4,336,538
Due to related parties	295,758	962,425
Total current liabilities	6,241,828	6,308,007
Deferred Rent	99,298	121,801
Deferred Revenue - long-term	229,183	44,690
Total liabilities	6,570,309	6,474,498
Commitments		
Shareholders' Deficiency:		
Convertible preferred stock, par value \$0.01, 20,000,000 shares authorized		
Series A, 1,772,550 shares issued and outstanding	1,499,850	1,499,850
(liquidation preference \$1,499,850)		
Series B, 650,000 shares issued and outstanding	500,000	500,000
(liquidation preference \$500,000)		
Series C, 331,043 shares issued and outstanding	390,156	390,156
(liquidation preference \$400,167)		
Series E, 3,854,530 shares issued and outstanding	3,920,000	3,920,000
(liquidation preference \$3,999,845)		
Series F, 3,358,586 shares issued and outstanding	10,401,046	10,401,046
(liquidation preference \$10,445,201)		
Series G, 1,705,220 shares issued and outstanding	3,274,377	3,274,377
(liquidation preference \$8,526,096)		
Common stock, par value \$0.01, 32,000,000 shares authorized,		
8,775,500 and 6,748,000 shares issued and outstanding as of	67,755	67,480
December 31, 2013 and 2012, respectively		
Additional paid-in capital	1,569,332	1,041,595
Accumulated deficit	(23,915,123)	(23,635,374)
Accumulated other comprehensive loss	(99,190)	(38,643)
Total shareholders' deficiency	(2,391,797)	(2,577,513)
Total liabilities and shareholders' deficiency	\$ 4,178,512	\$ 3,896,985

See Notes to Consolidated Financial Statements

SIGNED BY


Craig Kissel, CFO

8-26-2015

Alacra, Inc

Consolidated Statements of Operations
Years Ended December 31, 2013 and 2012

	2013	2012
Revenue	\$ 14,342,279	\$ 13,665,532
Cost of Revenue	<u>2,036,625</u>	<u>1,906,400</u>
Gross profit	<u>12,305,654</u>	<u>11,759,132</u>
Operating Expenses		
Selling, general and administrative	12,422,709	11,822,455
Depreciation and amortization	<u>154,364</u>	<u>215,209</u>
Total operating expenses	<u>12,577,073</u>	<u>12,037,664</u>
Operating loss before other income and income taxes	(271,419)	(278,532)
Other Income	-	48,449
Interest Income (Expense)	<u>1,363</u>	<u>(1,408)</u>
Operating loss before income taxes	(270,056)	(231,491)
Income Tax Expense	<u>9,693</u>	<u>49</u>
Net loss	<u><u>\$ (279,749)</u></u>	<u><u>\$ (231,540)</u></u>

See Notes to Consolidated Financial Statements

Alacra, Inc

**Consolidated Statements of Comprehensive Loss
Years Ended December 31, 2013 and 2012**

	2013	2012
Net Loss	<u>\$ (279,749)</u>	<u>\$ (231,540)</u>
Other Comprehensive (Loss) Income		
Foreign currency translation adjustment	<u>(62,547)</u>	<u>3,648</u>
Total other comprehensive (loss) income	<u>(62,547)</u>	<u>3,648</u>
Comprehensive loss	<u>\$ (342,296)</u>	<u>\$ (227,892)</u>

See Notes to Consolidated Financial Statements

Alacra, Inc

Consolidated Statements of Shareholders' Deficiency
Years Ended December 31, 2013 and 2012

	Preferred Stock		Common Stock		Additional		Accumulated	Other	Total
	Shares	Amount	Shares	Amount	Paid-In	Accumulated	Comprehensive	Shareholders'	
					Capital	Deficit	(Loss) Income	Deficiency	
Balance December 31 2011	11,671 929	\$ 19 985 429	6 748 000	\$ 67 480	\$ 1,032,817	\$ (23 403 834)	\$ (40 291)	(2,358,399)	
Net loss	-	-	-	-	-	(231,540)	-	(231 540)	
Foreign currency translation adjustment	-	-	-	-	-	-	3 648	3 648	
Stock-based compensation	-	-	-	-	8 778	-	-	8 778	
Balance, December 31, 2012	11 671 929	19 985 429	6 748,000	67 480	1 041 595	(23 635 374)	(36 643)	(2 577 513)	
Net loss	-	-	-	-	-	(279 749)	-	(279,749)	
Foreign currency translation adjustment	-	-	-	-	-	-	(62 547)	(62 547)	
Settlement of Redemption Liability	-	-	-	-	516 667	-	-	516 667	
Exercise of stock options	-	-	27 500	275	3,750	-	-	4 025	
Stock-based compensation	-	-	-	-	7 320	-	-	7 320	
Balance, December 31, 2013	11,671,929	\$ 19,985,429	6,775,500	\$ 67,755	\$ 1,569,332	\$ (23,915,123)	\$ (99,190)	\$ (2,391,797)	

See Notes to Consolidated Financial Statements

Alacra, Inc

Consolidated Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows From Operating Activities		
Net loss	\$ (279,749)	\$ (231,540)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation and amortization	154,364	215,209
Provision for doubtful accounts	(53,176)	38,793
Stock-based compensation	7,320	8,778
Changes in operating assets and liabilities		
Decrease (increase) in accounts receivable	699,361	(997,742)
Increase in other current assets	(210,351)	(287,711)
Increase in security deposits	(5,009)	-
(Decrease) increase in accounts payable and accrued expenses	(59,828)	25,382
Increase (decrease) in deferred revenue	789,847	(25,551)
Decrease in deferred rent	(22,561)	(29,504)
Net cash provided by (used in) operating activities	1,020,218	(1,283,886)
Cash Flows Used In Investing Activity - purchase of fixed assets	<u>(163,197)</u>	<u>(177,872)</u>
Cash Flows From Financing Activities		
Proceeds from stock option exercise	4,025	-
Payment of redemption liability	<u>(150,000)</u>	<u>-</u>
Net cash used in financing activities	(145,975)	-
Effect of Exchange Rates on Cash	<u>(38,094)</u>	<u>22,145</u>
Net increase (decrease) in cash and cash equivalents	672,952	(1,439,613)
Cash and Cash Equivalents		
Beginning	<u>136,966</u>	<u>1,576,579</u>
Ending	<u><u>\$ 809,918</u></u>	<u><u>\$ 136,966</u></u>
Summary of Noncash Items		
Settlement of redemption liability	<u><u>\$ 516,667</u></u>	<u><u>\$ -</u></u>
Supplemental Disclosures of Cash Flow Information		
Interest paid	<u><u>\$ 84</u></u>	<u><u>\$ -</u></u>
Taxes paid	<u><u>\$ 8,864</u></u>	<u><u>\$ 49</u></u>

See Notes to Consolidated Financial Statements

Alacra, Inc

Notes to Consolidated Financial Statements

Note 1 Organization

Description of Business Alacra, Inc (the "Company") was incorporated in Delaware in 1996. The Company develops and sells workflow tools and reference data products to financial institutions, professional service firms and corporations. The Company's workflow tools utilize content that is licensed from about 100 publishers to help customers research business opportunities and comply with know-your-customer regulations around the world. The Company's reference data products help customers maintain accurate data on their clients and counterparties.

Note 2 Significant Accounting Policies

Principles of Consolidation The accompanying consolidated financial statements include the accounts of the Company and its 100% owned UK branch. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents include investments in money market funds, and are stated at cost, which approximates fair market value.

Fixed Assets Fixed assets are stated at cost. Depreciation is computed using the straight-line method over the assets' estimated useful lives, which range from three to five years, and amortization of leasehold improvements is computed using the straight-line method over the shorter of the related asset life or lease term. Depreciation also includes amortization of assets held under capital leases. Expenditures for maintenance, repairs and minor renewals are charged to operations as incurred.

Allowance for Doubtful Accounts Accounts receivable are generally due in accordance with stated contract terms and shown at amounts due from customers less allowance for doubtful accounts. The allowance for doubtful accounts is established through a provision charged to expense. Accounts receivable are charged against the allowance for doubtful accounts when management believes that collectibility of the balance due is unlikely. The Company determines the allowance considering a number of factors, including the age of the receivable, the customer's current ability to pay, and the condition of the general economy and industry as a whole. The Company believes the allowance for doubtful accounts is sufficient to cover any potential losses. The Company writes off accounts receivable when they are deemed uncollectible.

Advertising and Marketing The Company expenses the costs of advertising and marketing as incurred. Advertising and marketing expense for the years ended December 31, 2013 and 2012 was approximately \$221,000 and \$179,000, respectively.

Impairment of Long-Lived Assets The Company evaluates long-lived assets, which include leasehold improvements and equipment subject to amortization, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value in the period in which the determination is made. Management has determined that no impairment of long-lived assets existed as of December 31, 2013 and 2012.

Alacra, Inc

Notes to Consolidated Financial Statements

Note 2 Significant Accounting Policies (Continued)

Revenue Recognition Revenue primarily includes access and retrieval fees from providing an online library of directory-based business information. Access revenues are generally subscription-based fees charged for access to content information generally for a period of one to two years or less. Retrieval revenues are generally usage-based fees charged on a pay-per-view basis as information is downloaded from content information. Revenues are recognized in the period in which the services are provided and the usage occurs. Subscription revenues are recorded on a monthly basis over the estimated life of the relationship. All expenses related to services provided are recognized as incurred. Prepaid subscription revenues are amortized over the term of the contract, generally being one year, and are recorded as deferred revenue. Development fee revenues are recognized over the term of the subscription agreement related to the development. The Company expenses commissions earned on unearned revenues over the life of the customer agreement.

Cost of Sales Cost of sales includes the direct cost of the content provider usage associated with the pay-per-view-based revenue and the sales commission cost directly related to the sales generated during the period.

Accounting for Stock-Based Compensation Stock-based compensation represents the cost related to stock-based awards granted to employees. The Company measures stock-based compensation cost at grant date, based on the estimated fair value of the award, and recognizes the cost as expense on a straight-line basis (net of estimated forfeitures) over the employee or service provider requisite service period. The Company estimates the fair value of stock options using the Black-Scholes valuation model. The expense is recorded as operating expenses in the consolidated statements of operations.

The Company records deferred tax assets for awards that result in deductions on the Company's income tax returns, based on the amount of compensation costs recognized and the Company's statutory tax rate in the jurisdiction in which it will receive a deduction. Differences between the deferred tax assets recognized for financial reporting purposes and the actual tax deduction reported on the Company's income tax return are recorded in additional paid-in capital (if the tax deduction exceeds the deferred tax asset) or in the consolidated statements of operations (if the deferred tax asset exceeds the tax deduction and no paid-in capital exists from previous awards).

Income Taxes Income taxes are accounted for under the liability method. Under this method, deferred tax assets and liabilities are recognized with respect to the future tax consequences attributable to differences between the financial statement carrying values and tax bases of existing assets and liabilities and operating loss and tax credit carryforwards. 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. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company follows the Financial Accounting Standards Board's (the "FASB") guidance on accounting for uncertainty in income taxes, which provides a comprehensive model for the recognition, measurement and disclosure in financial statements of uncertain income tax positions that a company has taken or expects to take on a tax return. Under this guidance, a company can recognize the benefit of an income tax position only if it is more likely than not (greater than 50%) that the tax position will be sustained upon tax examination, based solely on the technical merits of the tax position; otherwise, no benefit can be recognized. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses derecognition, classification, interest and penalties on income taxes, and accounting in interim periods. The Company recognizes interest and penalties, if any, in its provision for income taxes.

Alacra, Inc

Notes to Consolidated Financial Statements

Note 2 Significant Accounting Policies (Continued)

Management evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require adjustments to the consolidated financial statements in order to comply with the provisions of this guidance for the years ended December 31, 2013 and 2012. The tax years 2010 through 2012 are open and subject to audit by major tax jurisdictions.

Comprehensive Income Foreign currency translation adjustments are included in other comprehensive income (loss). The U.K. branch uses U.K. pounds sterling as its functional currency. The translation difference this creates when it is consolidated into U.S. dollars is recorded as other comprehensive income (loss).

Transaction gains (losses) Transaction gains and losses arising from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the consolidated statement of operations.

Related Party MSCI Barra, Inc. ("Barra") is a supplier of content to the Company and a significant shareholder. As of December 31, 2013 and 2012, Barra owned approximately 20% of the Company. Total payments to Barra were \$76,420 for 2013 and \$105,830 for 2012. Total payables owed to Barra were \$13,960 at December 31, 2013 and \$22,930 at December 31, 2012. Total content provider expenses related to Barra were approximately \$67,450 and \$107,820 for the years ended December 31, 2013 and 2012, respectively.

Recently Issued Accounting Pronouncement In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. The amendments supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification and creates Topic 606 *Revenue from Contracts with Customers*. In addition, the amendments supersede the cost guidance in Subtopic 605-35, *Revenue Recognition—Construction-Type and Production-Type Contracts*, and create new Subtopic 340-40, *Other Assets and Deferred Costs—Contracts with Customers*. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in ASU 2014-09 are effective for fiscal years ending after December 15, 2017. The Company is currently evaluating the impact of the pending adoption of this ASU on its consolidated financial statements.

Note 3. Concentration of Credit Risk

The Company deposits its cash with financial institutions and, at times, such balances may exceed Federal Deposit Insurance Corporation ("FDIC") limits. The Company had sales with two customers totaling approximately 40% for the year ended December 31, 2012. There were no sales concentrations for the year ended December 31, 2013. The Company had accounts receivable totaling 34% and 28% with two customers at December 31, 2013 and 2012, respectively.

Alacra, Inc

Notes to Consolidated Financial Statements

Note 4. Accounts Receivable

Accounts receivable consist of the following

	<u>2013</u>	<u>2012</u>
Billed	\$ 2,044,469	\$ 2,719,260
Unbilled	<u>53,412</u>	<u>61,063</u>
	2,097,881	2,780,323
Less allowance for doubtful accounts	<u>(56,794)</u>	<u>(109,468)</u>
	<u>\$ 2,041,087</u>	<u>\$ 2,670,855</u>

Note 5. Fixed Assets

Fixed assets as of December 31, 2013 and 2012 consist of the following

	<u>2013</u>	<u>2012</u>
Computer equipment and software	\$ 2,966,448	\$ 2,799,045
Leasehold improvements	297,045	297,045
Furniture	<u>30,740</u>	<u>30,740</u>
Total fixed assets	3,294,233	3,126,830
Less accumulated depreciation and amortization	<u>3,006,173</u>	<u>2,851,809</u>
	<u>\$ 288,060</u>	<u>\$ 275,021</u>

Depreciation and amortization expense was \$154,364 and \$215,209 for the years ended December 31, 2013 and 2012, respectively

Note 6 Credit Facility

The Company has a loan agreement and security agreement with a financial institution which includes a credit facility of \$1,000,000. Advances under the agreement bear interest at the lender's prime lending rate plus 2.0%. The Company must maintain unrestricted and unencumbered cash at a bank plus the availability amount (amount of credit facility available for disbursement) equal to at least \$750,000 and has certain profitability covenants as defined in the agreement. As of December 31, 2013, the Company was not in compliance with certain financial covenants. There were no outstanding borrowings as of December 31, 2013. On June 25, 2014, the Company entered into an amended and restated loan and security agreement with the same financial institution to finance eligible receivables as defined in the agreement with a maximum availability of \$1,000,000 and matures on June 24, 2015.

There was no interest expense recorded for the years ended December 31, 2013 and 2012 related to the Agreement. The line of credit is collateralized by substantially all of the assets of the Company.

Alacra, Inc.

Notes to Consolidated Financial Statements

Note 7 Commitments

The Company is obligated under various noncancelable operating lease agreements for office space located in New York and London. On August 1, 2009, the Company terminated its sublease in New York and signed a direct lease with the landlord that provides for a five-year extension from the end of the previous sublease through April 30, 2015. In May 2013, the Company renewed its lease for the U.K. office effective June 1, 2013 through May 2015. The Company also entered into a lease for a data center that expires in August 2016. Future minimum rental payments are approximately as follows:

Year ending December 31,

2014	\$ 755,000
2015	310,000
2016	<u>28,000</u>

Total minimum lease payments	<u>\$ 1,093,000</u>
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Rent expense for the years ended December 31, 2013 and 2012 was approximately \$654,000 and \$603,000, respectively.

Note 8 Income Taxes

At December 31, 2013, the Company has available net operating loss carryforwards of approximately \$19,684,000 that may be available to offset future federal and foreign income tax liabilities.

As of December 31, 2013 and 2012, a valuation allowance was established to reduce all of the Company's deferred tax assets to amounts deemed more likely than not to be realizable. The Company has recorded a full valuation allowance of approximately \$8,666,000 as of December 31, 2013 and \$8,691,000 as of December 31, 2012 against all of its deferred tax assets because it is not more likely than not these deferred tax assets will be realized.

Deferred income tax assets and liabilities are determined based upon differences between financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect for the year in which the differences are expected to affect taxable income.

The timing and extent to which the Company can utilize future tax deductions in any year may be limited by provisions of the Internal Revenue Code regarding changes in ownership of the corporation.

Alacra, Inc

Notes to Consolidated Financial Statements

Note 8 Income Taxes (Continued)

The deferred income tax assets and liabilities as of December 31, 2013 and 2012 consist of the following

	<u>2013</u>	<u>2012</u>
Deferred tax assets		
Net operating loss carryforwards	\$ 8,264,000	\$ 8,326,000
Deferred revenue	96,221	19,011
Accrued bonuses	178,242	225,959
Allowance for doubtful accounts	23,845	46,567
Prepaid expenses	23,956	17,855
Deferred rent	23,462	33,334
Stock-based compensation	14,087	11,160
Fixed assets	(12,757)	(43,733)
Charitable contributions	2,093	2,519
AMT tax credit	52,357	52,357
Net deferred tax asset pre-valuation allowance	8,665,506	8,691,029
Less valuation allowance	(8,665,506)	(8,691,029)
Total net deferred tax asset	\$ -	\$ -

Note 9. Shareholders' Deficiency

The Company has two designated classes of capital stock common stock and preferred stock. The total number of shares authorized by the Company is 52,000,000, which consists of 32,000,000 shares of common stock with a par value of \$0.01 per share, and 20,000,000 shares of preferred stock with a par value of \$0.01 per share.

Each outstanding share of common stock shall entitle the holder to one vote per share for each share held on record on all matters submitted to a vote of shareholders. Each share of convertible preferred stock shall entitle the holder to the number of votes per share on an action equal to the number of shares of common stock into which each share of convertible preferred stock is then convertible.

The holders of convertible preferred stock shall have the right at any time to convert shares into such number of fully paid and nonassessable shares of common stock at the Conversion Price, as defined. The Conversion Price for all series is one to one, except for Series C, which is 1.045 to 1, and the Conversion Price can be adjusted upon the occurrence of certain events, as defined. The convertible preferred stock will automatically be converted into shares of common stock at the Conversion Price upon the closing of a firm commitment underwritten public offering of the Company's common stock resulting in net proceeds to the Company of at least \$30,000,000, at least a \$7.775 per share price and a pre-valuation for the Company that is at least \$100,000,000.

The holders of Series E, Series F and Series G convertible preferred stock had the right as of December 16, 2006 to redeem any portion of their shares as follows. On each of December 16, 2006, 2007 and 2008, if so requested and if funds are available, the Company shall redeem from each holder of Series E convertible preferred stock, Series F convertible preferred stock and/or Series G convertible preferred stock a number of shares equal to one-third of the number of shares requested for redemption of redeemable preferred stock.

Alacra, Inc.

Notes to Consolidated Financial Statements

Note 9 Shareholders' Deficiency (Continued)

held by such holder. The preferred stock requested for redemption shall be redeemed by paying for each share an amount in cash equal to \$1.0377 in the case of Series E convertible preferred stock, \$3.11 in the case of Series F convertible preferred stock and \$5.00 in the case of Series G convertible preferred stock, plus, in each case, an amount in cash equal to all dividends declared but unpaid thereon. No dividends have been declared at December 31, 2013 or 2012.

Effective December 31, 2006, the holders of 410,853 shares of the Series E, F and G preferred stock have exercised their redemption rights resulting in a liability of \$1,443,631. The liability is due over a three-year period in equal installments. In 2007, the Company paid \$481,207 relating to the 2006 redemption portion. The 2007 and 2008 portions of the redemption amounted to \$962,424. In July 2013, the Company paid \$150,000 to settle \$666,667 of the outstanding redemption liability. The remaining balance has not yet been paid due to a lack of cash availability. The remaining liability of approximately \$295,000 is recorded in due to related parties on the consolidated balance sheets.

Upon liquidation of the Company, whether voluntary or involuntary, the holders of Series G convertible preferred stock are first entitled to liquidation preference payments of \$5.00 per share. Subsequent to payment to holders of Series G shares, holders of Series F shares are entitled to \$3.11 per share, after which, holders of Series E shares are entitled to \$1.0377 per share, after which, holders of Series A shares are entitled to \$8.462 per share and holders of Series C are entitled to \$1.2088 per share. Subsequent to these payments, holders of Series B shares are entitled to \$7.692 per share. Immediately after all the holders of each series of convertible preferred stock have been paid in full, the remaining net assets of the Company shall be distributed among the holders of Series E, F and G convertible preferred stock and the holders of the common stock on a pro-rata basis.

Note 10. Stock Options

The Company has an Employee Equity Participation Program (the "Plan") under which incentive stock options or nonqualified stock options to purchase common stock may be granted to eligible participants for periods not to exceed 10 years. The Plan, as amended, provides for the authorization of up to 2,994,000 shares of the Company's common stock. Options granted under the Plan vest ratably over a five-year period. At December 31, 2013, 925,500 options have been exercised and, in addition, 1,329,250 option shares were fully vested. At December 31, 2012, 898,000 options have been exercised and, in addition, 1,429,250 option shares were fully vested. The fair value of the stock options on the date of grant was \$0.39 at December 31, 2013.

Alacra, Inc

Notes to Consolidated Financial Statements

Note 10 Stock Options (Continued)

Activity under the Plan is summarized as follows

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life
Balance, December 31, 2011	1,584,250	\$ 0 38	2 14
Options granted	-	-	
Options exercised	-	-	
Options forfeited	(155,000)	0 54	
Balance, December 31, 2012	1,429,250	0 36	0 83
Options granted	200,000	0 37	
Options exercised	(27,500)	0 15	
Options forfeited	(112,500)	0 29	
Balance, December 31, 2013	1,489,250	0 37	1 96
Exercisable, December 31, 2013	1,329,250		

The Company recorded expenses of \$7,320 and \$8,778 in 2013 and 2012, respectively. The fair value of the share-based awards granted was calculated using the Black-Scholes option-pricing model and the following weighted-average assumptions for the year ended December 31, 2013. There were no options granted during the year ended December 31, 2012.

	2013
Weighted-average risk-free interest rate	2 12%
Weighted-average volatility	40 00%
Dividend yield	00%
Weighted-average expected life in years	6 50
Weighted-average grant date fair value of common stock	\$ 39

The Company used a projected expected life for each award granted based upon the simplified method for estimating the expected term. Expected volatility is based upon the average of the historical volatility for the period commensurate with the expected life of the option and the volatility of a sample of comparable companies. The risk-free interest rate is equal to the U.S. Treasury constant maturity for the period equal to the expected life.

There was \$25,459 of unrecognized compensation expense related to the stock options as of December 31, 2013.

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Notes to Consolidated Financial Statements

Note 11. Fair Value of Financial Instruments

The Fair Value Measurements Topic of the FASB Accounting Standards Codification ("ASC") 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 and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under this guidance as assumptions market participants would use in pricing an asset or liability.

This guidance establishes three levels of the fair value hierarchy as follows:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of investments in Level 1 include available-for-sale securities traded on a national securities exchange. These securities are stated at the last reported sales price on the day of valuation. The Company's Level 1 investments consist of money market funds.
- Level 2 Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly, and fair value that is determined through the use of models or other valuation methodologies. Investments in this category generally include less liquid and restricted equity securities, certificates of deposit and certain over-the-counter derivatives. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement. The Company has no Level 2 investments.
- Level 3 Inputs that are unobservable for the asset or liability and that include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments in this category generally include equity and debt positions in private companies. The Company has no Level 3 investments.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The Company's Level 1 investments consist of \$159,309 and \$114,113 in money market accounts as of December 31, 2013 and 2012, respectively, and are included in cash and cash equivalents on the consolidated balance sheets.

Note 12 Subsequent Events

The Company has evaluated subsequent events through June 30, 2014, the date on which the financial statements were available to be issued. On June 25, 2014, the Company entered into an amended and restated loan and security agreement with its financial institution to finance eligible receivables as defined in the agreement with a maximum availability of \$1,000,000 and matures on June 24, 2015.