ACQUIRED SALES CORP
Form 10-Q
August 13, 2013

FORM 10-Q
U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from ________ to ________

Commission file number 000-52102

Acquired Sales Corp.
(Exact name of registrant as specified in its charter)

Nevada (State or other jurisdiction of incorporation or organization)	87-40479286 (I.R.S. Employer Identification Number)

31 N. Suffolk Lane, Lake Forest, Illinois 60045
(Address of principal executive offices)

(847) 915-2446
(Registrant's telephone number, including area code)

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

Indicate by checkmark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [x] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [x] No [ ]

i

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

Large Accelerated Filer [ ]	Accelerated Filer [ ]	Non-Accelerated Filer [ ] (Do not check if a smaller reporting company)	Smaller Reporting Company [x]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [x]

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common units, as of the latest practicable date: 2,960,444 shares of common stock, par value $.001 per share, outstanding as of August 7, 2013.

Transitional Small Business Disclosure Format (Check one): Yes [ ] No [x]

ACQUIRED SALES CORP.

- INDEX -

Table of Contents

Item 1. Financial Statements

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and in accordance with the instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, the financial statements contain all material adjustments, consisting only of normal recurring adjustments necessary to present fairly the financial condition, results of operations, and cash flows of the Company for the interim periods presented.

The results for the period ended June 30, 2013 are not necessarily indicative of the results of operations for the full year. These financial statements and related footnotes should be read in conjunction with the financial statements and footnotes thereto included in the Company's Form 10-K filed with the Securities and Exchange Commission for the period ended December 31, 2012.

Table of Contents

ACQUIRED SALES CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30, 2013	December 31, 2012
ASSETS		
Current Assets		
Cash and cash equivalents	$217,263	$186,914
Restricted cash	300,000	-
Accounts receivable	-	292,171
Due from Cogility	167,431	-
Due from sale of subsidiary	1,000,000	-
Costs in excess of billings on uncompleted contracts	48,038	-
Receivables from employees	939	609
Prepaid expenses	21,980	14,301
Total Current Assets	1,755,651	493,995
Intangible Assets, net	187,977	338,358
Deposits	4,900	4,900
Property and Equipment, net	4,341	-
Property and Equipment Held-for-Sale	-	25,438
Total Assets	$1,952,869	$862,691
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current Liabilities		
Trade accounts payable	$94,288	$346,153
Accrued liabilities	-	124,078
Billings in excess of costs on uncompleted contracts	-	376,650
Accrued compensation	107,724	880,723
Notes payable, current portion	-	130,070
Notes payable - related parties, current portion	-	1,489,275
Total Current Liabilities	202,012	3,346,949
Long-Term Liabilities		
Notes payable, net of current portion	-	480,480
Notes payable - related parties, net of current portion	-	344,601
Total Long-Term Liabilities	-	825,081
Shareholders' Equity (Deficit)		
Preferred stock, $0.001 par value; 10,000,000 shares authorized; none outstanding	-	-
Common stock, $0.001 par value; 100,000,000 shares authorized; 2,963,896 shares and 2,877,896 shares outstanding, respectively	2,964	2,878
Additional paid-in capital	8,459,602	8,187,846
Accumulated deficit	(6,711,709)	(11,500,063)
Total Shareholders' Equity (Deficit)	1,750,857	(3,309,339)
Total Liabilities and Shareholders' Equity (Deficit)	$1,952,869	$862,691

See the accompanying notes to condensed consolidated financial statements.

Table of Contents

ACQUIRED SALES CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the Three Month Ended June 30,		For the Six Month Ended June 30,	
	2013	2012	2013	2012
Revenue	$140,360	$241,900	$140,360	$250,400
Cost of Services	104,494	266,590	104,494	277,137
Gross Profit (Loss)	35,866	(24,690)	35,866	(26,737)
Selling, General and Administrative Expense	81,728	141,733	156,116	655,688
Amortization of Intangible Assets	75,190	75,190	150,380	112,786
Operating Expenses	156,918	216,923	306,496	768,474
Loss from Operations	(121,052)	(241,613)	(270,630)	(795,211)
Loss from Extinguishment of Debt	-	(58,174)	(79,463)	(58,174)
Interest Expense	-	(15,217)	(4,719)	(30,279)
Loss from Continuing Operations	(121,052)	(315,004)	(354,812)	(883,664)
Gain on Disposal of Discontinued Operations	994,678	-	4,726,068	-
Income (Loss) from Discontinued Operations	172,753	(333,143)	417,098	(289,414)
Net Income (Loss)	$1,046,379	$(648,147)	$4,788,354	$(1,173,078)
Basic and Diluted Earnings (Loss) per Share				
Continuing Operations	$(0.04)	$(0.11)	$(0.12)	$(0.32)
Discontinued Operations	0.39	(0.12)	1.74	(0.11)
Net Income (Loss)	$0.35	$(0.23)	$1.62	$(0.43)

See the accompanying notes to condensed consolidated financial statements.

Table of Contents

ACQUIRED SALES CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2013
(UNAUDITED)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Shareholders' Equity (Deficit)
Balance, December 31, 2011	2,602,896	$ 2,603	$ 6,236,634	$ (9,136,037)	$ (2,896,800)
Services contributed by shareholder, no additional shares issued	-	-	125,000	-	125,000
Exercise of stock options	25,000	25	-	-	25
Issuance of common stock for services	150,000	150	149,850	-	150,000
Issuance of warrants to purchase common stock	-	-	184,839	-	184,839
Warrants isued in debt extinguishment	-	-	58,174	-	58,174
Share-based compensation	-	-	449,905	-	449,905
Acquisition of the Defense & Security Technology Group, Inc. net assets	100,000	100	679,202	-	679,302
Net loss	-	-	-	(1,173,078)	(1,173,078)
Balance, June 30, 2012	2,877,896	$ 2,878	$ 7,883,604	$ (10,309,115)	$ (2,422,633)
Balance, December 31, 2012	2,877,896	$ 2,878	$ 8,187,846	$ (11,500,063)	$ (3,309,339)
Stock issued in debt extinguishment	86,000	86	271,756	-	271,842
Net income	-	-	-	4,788,354	4,788,354
Balance, June 30, 2013	2,963,896	$ 2,964	$ 8,459,602	$ (6,711,709)	$ 1,750,857

See the accompanying notes to condensed consolidated financial statements.

Table of Contents

ACQUIRED SALES CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Six Month Ended June 30, 2013	2012
Cash Flows from Operating Activities		
Net income (loss)	$4,788,354	$(1,173,078)
Adjustments to reconcile income (loss) to net cash provided by (used in) operating activities:		
(Income) loss from discontinued operations	(5,143,166)	289,414
Services contributed by shareholder, no additional shares issued	-	125,000
Share-based compensation	-	449,905
Amortization of prepaid expenses	-	30,978
Amortization of discount on notes payable	-	201,021
Amortization of intangible assets	150,381	112,786
Acquisition related compensation	-	32,649
Depreciation	395	602
Loss from extinguishment of debt	79,463	58,174
Changes in operating assets and liabilities:		
Accounts receivable	23,250	-
Accounts payable	(56,875)	22,924
Accrued liabilities	(1,298)	-
Costs in excess of billings, net of billings in excess of costs, on uncompleted contracts	(40,216)	-
Accrued compensation	4,157	17,510
Net cash provided by (used in) operating activities of continuing operations	(195,555)	167,885
Net cash used in operating activities of discontinued operations	(1,192,385)	(640,519)
Net cash used in operating activities	(1,387,940)	(472,634)
Cash Flows from Investing Activities		
Proceeds from sale of discontinued operations	3,975,000	-
Restricted cash	(300,000)	-
Purchase of property and equipment	(4,736)	-
Advances to employees	(129)	(45)
Cash acquired with purchase of Defense & Security Technology Group, Inc.	-	23,611
Net cash provided by investing activities of continuing operations	3,670,135	23,566
Net cash used in investing activities of discontinued operations	-	(2,591)
Net cash provided by investing activities	3,670,135	20,975
Cash Flow from Financing Activities		
Payments on notes payable	(650,070)	-
Payments on notes payable - related parties	(1,601,776)	-
Proceeds from borrowing under notes payable to related parties and issuance of warrants	-	500,000
Issuance of common stock	-	25
	(2,251,846)	500,025

Net cash provided by (used in) financing activities of continuing operations		
Net Increase in Cash	30,349	48,366
Cash and Cash Equivalents at Beginning of Period	186,914	65,684
Cash and Cash Equivalents at End of Period	$217,263	$114,050

See the accompanying notes to condensed consolidated financial statements.

Table of Contents

ACQUIRED SALES CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(UNAUDITED)

	For the Six Months Ended June 30, 2013	For the Six Months Ended June 30, 2012
Supplemental Cash Flow Information		
Cash paid for interest	$3,683	$18,949
Cash paid for income taxes	$-	$800
Supplemental Disclosure of Noncash Investing and Financing Activities		
Stock issued in extinguishment of debt to related party	$271,842	$-
Acquisition of Defense & Security Technology Group, Inc.:		
Fair value of assets acquired	$-	$794,503
Liabilities assumed	-	(147,850)
Compensation recognized	-	32,649
Fair value of common stock issued and stock options granted	$-	$679,302

See the accompanying notes to condensed consolidated financial statements.

ACQUIRED SALES CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – On February 13, 2012, Acquired Sales Corp ("Acquired Sales" or the "Company") purchased 100% of the equity interests of Defense & Security Technology Group, Inc. ("DSTG"). The results of DSTG's operations have been included in the consolidated financial statements since February 13, 2012.

On January 12, 2013, Acquired Sales entered into an agreement with Drumright Group, LLC ("Drumright") that was closed on February 11, 2013, wherein Acquired Sales sold 100% of the capital stock of Cogility Software Corporation ("Cogility") to Drumright. The historical results of Cogility's results of operations have been reclassified to discontinued operations.

Condensed Financial Statements – The accompanying financial statements are condensed and do not include all disclosures normally required by generally accepted accounting principles. These statements should be read in conjunction with the annual financial statements included in Form 10-K filed with the U.S. Securities and Exchange Commission on April 1, 2013. In particular, the nature of operations and significant accounting principles were presented in Note 1 to the annual financial statements. In the opinion of management, all adjustments necessary for a fair presentation have been included in the accompanying unaudited condensed consolidated financial statements and consist of only normal recurring adjustments, except as disclosed herein. The results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2013.

Principles of Consolidation – The accompanying condensed consolidated financial statements include the accounts and operations of Acquired Sales for all periods presented, the accounts and discontinued operations of Cogility Software Corporation to February 11, 2013 and accounts and operations of Defense & Security Technology Group, Inc. from February 14, 2012. The entities for these respective periods are referred to herein as "the Company." Intercompany accounts and transactions have been eliminated on consolidation.

Basic and Diluted Loss Per Common Share – The computation of basic earnings (loss) per share amounts are determined by dividing loss from continuing operations, income (loss) from discontinued operations and net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per share amounts are calculated by dividing these same items by the weighted-average number of common shares and dilutive common share equivalents outstanding during the period. When dilutive, the incremental potential common shares issuable upon exercise of stock options and warrants are determined by the treasury stock method. The following table summarizes the calculations of basic and diluted earnings (loss) per share for the three and six months ended June 30, 2013 and 2012:

Table of Contents

ACQUIRED SALES CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

	For the Three Month Ended June 30,		For the Six Month Ended June 30,	
	2013	2012	2013	2012
Loss from continuing operations	$(121,052)	$(315,004)	$(354,812)	$(883,664)
Income (loss) from discontinued operations	1,167,431	(333,143)	5,143,166	(289,414)
Net income (loss)	$1,046,379	$(648,147)	$4,788,354	$(1,173,078)
Basic and Diluted Weighted-Average Shares Outstanding	2,963,896	2,769,563	2,949,563	2,719,563
Basic and Diluted Earnings (Loss) per Share				
Continuing operations	$$(0.04)	$$(0.11)	$$(0.12)	$(0.32)
Discontinued operations	0.39	(0.12)	1.74	(0.11)
Net Income (Loss)	$$0.35	$$(0.23)	$$1.62	$(0.43)

There were 2,173,774 stock options and 938,000 warrants outstanding during the three and six months ended June 30, 2013 that were excluded from the computation of diluted earnings (loss) per share because their effects would have been anti-dilutive. There were 2,336,981 stock options and 710,000 warrants outstanding during the three and six months ended June 30, 2012 that were excluded from the computation of diluted earnings (loss) because their effects would have been anti-dilutive.

Revenue Recognition – The Company enters into contractual arrangements with end-users of its products to sell software licenses, hardware, consulting services and maintenance services, either separately or in various combinations thereof. For each arrangement, revenue is recognized when persuasive evidence of an arrangement exists, the fees to be paid by the customer are fixed or determinable, collection of the fees is probable, and delivery of the product or services has occurred. When the Company is the primary obligor or bears the risk of loss, revenue and costs are recorded on a gross basis. When the Company receives a fixed transactional fee, revenue is recorded under the net method based on the net amount retained.

In contractual arrangements where services are essential to the functionality of the software or hardware, or payment of the license fees are dependent upon the performance of the related services, revenue for the software license, hardware and consulting fees are recognized on the completed-contract method when the contract is substantially completed and all related deliverables have been provided to and accepted by the customer.This method is used because the Company is unable to accurately estimate total cost of individual contracts until the contracts are substantially complete. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Claims for additional compensation are recognized during the period such claims are resolved and collected.

Costs of software, hardware and costs incurred in performing the contract services are deferred until the related revenue is recognized. Contract costs include all purchased software and hardware, subcontract and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, equipment, and travel costs as well as depreciation on equipment used in performance of the contractual arrangements. Depreciation on administrative assets and selling, general and administrative costs are charged to expense as incurred.

Costs in excess of amounts billed are classified as current assets under the caption Costs in excess of billings on uncompleted contracts. Billings in excess of costs are classified as current liabilities under the

ACQUIRED SALES CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

caption Billings in excess of costs on uncompleted contracts. Contract retentions are included in accounts receivables.

Consulting Services: Consulting services are comprised of consulting, implementation, software installation, data conversion, building interfaces to allow the software to operate in integrated environments, training and applications. Consulting services are sold on a fixed-fee and a time-and-materials basis, with payment normally due upon achievement of specific milestones. Consulting services revenue is recognized under the completed-contract method as described above.

NOTE 2 - RISKS AND UNCERTAINTIES

The Company has a history of recurring losses, which has resulted in an accumulated deficit of $6,711,709 as of June 30, 2013. During the six months ended June 30, 2013, the Company recognized a loss of $354,812 from continuing operations and income of $5,143,166 from discontinued operations for a total income of $4,788,354. The Company used $195,555 of cash in its operating activities from continuing operations. The sale of Cogility eliminated the Company's primary source of revenue. As a result, there can be no assurance that the Company will not need additional financing or that the Company will be profitable in the future in order to continue as a going concern.

The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE 3 – ACQUISITION

Defense & Security Technology Group, Inc. – Acquired Sales purchased 100% of the equity interests of Defense & Security Technology Group, Inc. ("DSTG") on February 13, 2012. The results of DSTG's operations have been included in the consolidated financial statements since that date. DSTG is currently fulfilling one contract for a commercial customer.

DSTG was acquired in exchange for 100,000 shares of common stock, stock options to purchase 300,000 common shares at $3.18 per share through February 13, 2017, and stock options to purchase 100,000 common shares at $8.00 per share through May 13, 2017. The fair value of the consideration issued to acquire DSTG was $679,302. The common shares issued were valued at $3.18 per share based on management's estimate of their fair value, or $318,000 in total. The fair value of the stock options granted was $361,302 determined by the Black-Scholes option pricing model with the following weighted-average assumptions: expected future volatility of 56%; risk-free interest rate of 0.29%; dividend yield of 0% and an expected term of 2.5 years. The expected volatility was based on a peer company's volatility and the volatility of indexes of the stock prices of companies in the same industry. The risk-free interest rate was based on the U.S. Federal treasury rate for instruments due over the expected term of the options. The expected term of the options was determined based on one-half of the contractual term.

The purchase of DSTG was a business combination recognized by the acquisition method of accounting. Goodwill was not recognized on the transaction; however, Acquired Sales recognized $32,649 of compensation to the owner of DSTG separately from the recognition of the assets acquired and the liabilities assumed in the business combination. The compensation expense and $40,461 of acquisition-related costs were included in selling, general and administrative expense during the six months ended June 30, 2012. The fair value of the assets acquired and the liabilities assumed were measured based on

Table of Contents

ACQUIRED SALES CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

significant inputs that are not observable in the market and are considered Level 3 fair value inputs. The fair value of the assets acquired, liabilities assumed and compensation recognized was as follow:

Cash	$23,611
Accounts receivable, net	161,900
Deposits	4,900
Property and equipment	2,567
Intangible assets	601,525
Total assets acquired	794,503
Accounts payable	(18,393)
Distributions payable to selling shareholder	(86,000)
Estimated future costs in excess of future billings on uncompleted contracts	(43,457)
Total liabilities assumed	(147,850)
Fair value of net assets acquired	646,653
Compensaton expense recognized	32,649
Fair Value of Consideration Issued	$679,302

All of the $601,525 of acquired intangible assets relate to non-contractual customer relationships with U.S. government procurement departments. The customer relationships had an estimated useful life of approximately 2 years. The Company recognized amortization expense for the customer relationships of $150,380 and $112,786 for the six months ended June 2013 and 2012 respectively.

The amounts of DSTG’s revenue and loss from continuing operations included in Acquired Sales Corp.’s condensed consolidated statement of operations for the three and six months ended June 30, 2012 and the revenue and loss from continuing operations of the combined entity had the acquisition of DSTG been January 1, 2012 are as follows:

	Revenue	Loss from Continuing Operations
Actual for the three months ended June 30, 2012	$241,900	$(136,766)
Actual for the six months ended June 30, 2012	250,400	(235,826)
Supplemental pro forma for the three months ended June 30, 2012	241,900	(315,004)
Supplemental pro forma for the six months ended June 30, 2012	$641,822	$(81,438)

NOTE 4 –COSTS AND BILLINGS ON UNCOMPLETED CONTRACTS

At June 30, 2013 the Company was in the process of providing a software license, hardware and services to one customer. Revenue and costs on the uncompleted contract were deferred at June 30, 2013 and will be recognized upon completion of the contract. Contract costs in excess of billings and contract billings in excess of contract costs on uncompleted contracts at June 30, 2013 and December 31, 2012 were as follows:

F-10

ACQUIRED SALES CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

	June 30, 2013	December 31, 2012
Costs incurred on uncompleted contracts	$798,038	$437,455
Billings to date on uncompleted contract	750,000	814,105
	$48,038	$(376,650)
Included in the accompanying condensed consoldiated balance sheets under the following captions:		
Costs in excess of billings on uncompleted contracts	$48,038	$-
Billings in excess of costs on uncompleted contracts	-	(376,650)
	$48,038	$(376,650)

NOTE 5 – RELATED PARTY TRANSACTIONS

At December 31, 2012 the Company had recorded accrued compensation that includes $570,979 in deferred payroll and vacation pay, and payroll taxes payable, $110,777 in employee reimbursements payable, and commissions payable to one current and one former employee in the aggregate amount of $198,967. Under the terms of the sale of Cogility, all but $107,724 of the accrued compensation was paid during the six months ended June 30, 2013.

On September 13, 2011, a key executive resigned his position and entered into a severance agreement with the Company. On September 16, 2010, the Company had signed a letter agreeing to pay the former executive officer $47,000 in one-time commissions, with payment deferred until 30 days after the closing of a private placement of common stock or debt convertible into common stock in the total amount of at least $2,000,000. Under the severance agreement the former executive officer is to receive a one-time bonus of $35,000 and deferred compensation of $18,432 payable upon the completion of a private placement of common stock or debt convertible into common stock in the total amount of at least $2,000,000. The liability was paid in full during the six months ended June 30, 2013.

Notes Payable to Related Parties – At December 31, 2012, the Company had notes payable to a significant shareholder, affiliated with an officer of the Company for $525,000. The notes were unsecured, non-interest bearing and due upon demand. The Company had entered into an agreement with the significant shareholder that, at such time as the Company was financially able to do so and at the reasonable discretion of the chief executive officer of the Company, the notes payable held by the significant shareholder would be extinguished in full by the payment of $262,500 in cash and the issuance of 86,000 shares common stock. Based on the fair value of the Company’s common stock on the date of the agreement of $3.18 per share, the significant shareholder received a contingent beneficial conversion feature in connection with the agreement. The Company recognized a loss of $10,980 that is included in loss from extinguishment of debt for the six months ended June 30, 2013. The liability was settled with the payment of $262,500 and the issuance of 86,000 shares of common stock during the six months ended June 30, 2013.

At December 31, 2012, the Company had $375,000 of notes payable to related parties that were secured by all the assets of the Company, bore interest at 3% per annum and were due December 31, 2014. The notes were issued with warrants to purchase common stock that resulted in the notes payable being carried at a discount to their face value. At February 11, 2013, the carrying amount of the notes payable was $344,601, net of $30,399 of unamortized discount. The liability was paid in full during the six

F-11

months ended June 30, 2013. The Company recognized a loss of $30,399 on early extinguishment of debt relating to unamortized discount.

On January 30, 2012 an officer advanced the Company $75,000 for short-term working capital needs. The loan was without interest, unsecured and due upon demand. On April 1, 2012, the terms of the loan were renegotiated such that the loan bore interest at 6% per annum, payable quarterly, and was due upon demand. In addition the officer was awarded 37,500 warrants to purchase common stock at a price of $2.00 per share. All of the warrants expire 5 years from their respective issuance dates. The fair value of the 37,500 warrants issued was estimated to be $58,174 using the Black-Scholes option pricing model using the following weighted-average assumptions: estimated future volatility of 52.61%; risk-free interest rate of 0.33%; dividend yield of 0% and an estimated term of 2.5 years. The renegotiation was treated as an extinguishment of debt. The Company recognized a loss on the extinguishment of debt of $58,174. The liability was paid in full during the six months ended June 30, 2013.

In connection with the acquisition of DSTG on February 13, 2012, the Company assumed an $86,000 distribution payable to the former DSTG shareholder. The liability was without interest, due upon demand and unsecured. On July 25, 2012, the terms of the loan were renegotiated such that the loan bore interest at 6% per annum, payable quarterly, and was due upon demand. In addition the officer was awarded 43,000 warrants to purchase common stock at a price of $3.25 per share. All of the warrants expire 5 years from their respective issuance dates. The fair value of the 43,000 warrants issued was estimated to be $41,646 using the Black-Scholes option pricing model using the following weighted-average assumptions: estimated future volatility of 47.80%; risk-free interest rate of 0.25%; dividend yield of 0% and an estimated term of 2.5 years. The renegotiation was treated as an extinguishment of debt. The Company recognized a loss on the extinguishment of debt of $41,646. The liability was paid in full during the six months ended June 30, 2013.

On February 14, 2012, the Company borrowed $200,000 from a director of the Company. Attached with the note payable were 100,000 warrants to purchase common stock at a price of $2.00 per share. On March 13, 2012, the Company borrowed another $25,000 from a director of the Company. Attached with this note payable were 12,500 warrants to purchase common stock at a price of $2.00 per share. On March 29, 2012, the Company borrowed $100,000 from an entity related to an officer of the Company. Attached with this note payable were 50,000 warrants to purchase common stock at a price of $2.00 per share. All of the related notes payable bear interest at 6% per annum, payable quarterly, and are due upon demand. All of the warrants expire 5 years from their respective issuance dates. The notes were paid in full during the six months ended June 30, 2013.

In association with the aggregate notes payable of $325,000, the fair value of the 162,500 warrants issued was estimated to be $252,102 using the Black-Scholes option pricing model using the following weighted-average assumptions: estimated future volatility of 52.62%; risk-free interest rate of 0.33%; dividend yield of 0% and an estimated term of 2.5 years. The warrants qualify to be recognized as stockholders' equity; therefore, the consideration received was allocated to the notes payable and the warrants based on their relative fair values and resulted in $183,027 being allocated to the notes payable and $141,973 allocated to the warrants. Because the notes are due on demand, the $141,973 discount to the notes payable was immediately recognized as interest expense.

On March 31, 2012 a significant shareholder advanced the Company $60,000 for short-term working capital needs. The loan was without interest, unsecured and due upon demand. The note payable was paid in full on April 13, 2012.

F-12

ACQUIRED SALES CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

On June 4, 2012 the Company borrowed an additional $100,000 from an officer of the Company. Attached with this note payable were 50,000 warrants to purchase common stock at a price of $2.00 per share. The related note payable bore interest at 6% per annum, payable quarterly, and was due upon demand. All of the warrants expire 5 years from their issuance dates. The liability was paid in full during the six months ended June 30, 2013.

In association with the notes payable of $100,000, the fair value of the 50,000 warrants issued was estimated to be $75,010 using the Black-Scholes option pricing model using the following weighted-average assumptions: estimated future volatility of 50.62%; risk-free interest rate of 0.25%; dividend yield of 0% and an estimated term of 2.5 years. The warrants qualify to be recognized as stockholders' equity; therefore, the consideration received was allocated to the notes payable and the warrants based on their relative fair values and resulted in $57,134 being allocated to the notes payable and $42,866 allocated to the warrants. Because the notes are due on demand, the $42,866 discount to the notes payable was immediately recognized as interest expense.

On July 16 and 25, 2012 the Company borrowed $50,000 and $50,000, respectively, from an officer of the Company. Attached to the notes payable were a total of 50,000 warrants to purchase common stock at a price of $3.25 per share. On July 9, 2012, the Company borrowed another $30,000 from a director of the Company. Attached with this note payable were 15,000 warrants to purchase common stock at a price of $3.25 per share. On July 13, 2012, the Company borrowed $100,000 from an entity related to an officer of the Company. Attached with this note payable were 50,000 warrants to purchase common stock at a price of $3.25 per share. All of the related notes payable bore interest at 6% per annum, payable quarterly, and were due upon demand. All of the warrants expire 5 years from their respective issuance dates. The liability was paid in full during the six months ended June 30, 2013.

In association with the aggregate notes payable of $230,000, the fair value of the 115,000 warrants issued was estimated to be $110,417 using the Black-Scholes option pricing model using the following weighted-average assumptions: estimated future volatility of 47.58%; risk-free interest rate of 0.25%; dividend yield of 0% and an estimated term of 2.5 years. The warrants qualify to be recognized as stockholders' equity; therefore, the consideration received was allocated to the notes payable and the warrants based on their relative fair values and resulted in $155,397 being allocated to the notes payable and $74,603 allocated to the warrants. Because the notes are due on demand, the $74,603 discount to the notes payable was immediately recognized as interest expense.

On December 13, 2012 the Company borrowed $20,000, from an entity related to an officer of the Company. Attached to the notes payable were a total of 10,000 warrants to purchase common stock at a price of $3.50 per share. On December 13, 2012, the Company borrowed another $20,000 from a director of the Company. Attached with this note payable were 10,000 warrants to purchase common stock at a price of $3.50 per share. On December 14, 2012, the Company borrowed $100,000 from an officer of the Company. Attached with this note payable were 50,000 warrants to purchase common stock at a price of $3.50 per share. All of the related notes payable bore interest at 6% per annum, payable quarterly, and were due upon demand. All of the warrants expire 5 years from their respective issuance dates. The notes payable were paid in full during the six months ended June 30, 2013.

In association with the aggregate notes payable of $140,000, the fair value of the 70,000 warrants issued was estimated to be $74,122 using the Black-Scholes option pricing model using the following weighted-average assumptions: estimated future volatility of 56.49%; risk-free interest rate of 0.26%; dividend yield of 0% and an estimated term of 2.5 years. The warrants qualify to be recognized as stockholders' equity; therefore, the consideration received was allocated to the notes payable and the warrants based on

F-13

Table of Contents

ACQUIRED SALES CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

their relative fair values and resulted in $77,067 being allocated to the notes payable and $62,933 allocated to the warrants. Because the notes are due on demand, the $62,933 discount to the notes payable was immediately recognized as interest expense.

At March 31, 2013 an officer of the Company had advanced the Company a total of $32,500 for short-term working capital needs. The loan was without interest, unsecured and due upon demand. The advance was paid in full during the six months ended June 30, 2013.

The details of the terms of the notes payable to related parties and their carrying amounts were as follows at June 30, 2013 and December 31, 2012:

	March 31, 2013	December 31, 2012
Non-interest bearing notes payable to an entity related to an officer of the Company; unsecured; settled in February 2013	$ -	$ 525,000
3% Notes payable to related parties; secured by all of the assets of the Company; settled in February 2013	-	344,601
6% Notes payable to related parties; settled in February 2013	-	870,000
Non-interest bearing notes payable to a shareholder and officer of the Company; unsecured; settled in February 2013	-	8,275
Distribution payable to the former DSTG shareholder settled in February 2013	-	86,000
Total Notes Payable - Related Parties	-	1,833,876
Less: Current portion	-	(1,489,275)
Long-Term Notes Payable - Related Parties	$ -	$ 344,601

NOTE 6– NOTES PAYABLE

Notes Payable – At December 31, 2012, notes payable to a lending company totaled $130,070, were unsecured, non-interest bearing and due on demand. The Company did not impute interest on the loans; as such imputed interest would not have been material to the accompanying financial statements. The liability was paid in full during the six months ended June 30, 2013.

At December 31, 2012, The Company had $520,000 of notes payable to third parties that were secured by all the assets of the Company, bore interest at 3% per annum and were due December 31, 2014. The notes were issued with warrants to purchase common stock that resulted in the notes payable being carried at a discount to their face value. At December 31, 2013, the carrying amount of the notes was $480,480, net of $39,520 of unamortized discount. The liability was paid in full during the six months ended June 30, 2013. The Company recognized a loss of $39,520 on early extinguishment of debt relating to the unamortized discount.

The details of the terms of the notes payable and their carrying amounts were as follows at June 30, 2013 and December 31, 2012:

Table of Contents

ACQUIRED SALES CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

	June 30, 2013	December 31, 2012
Non-interest bearing notes payable to a lending company; unsecured; settled in February 2013	$-	$130,070
3% $520,000 Notes payable; secured by all of the assets of the Company; settled in February 2013	-	480,480
Total Notes Payable	-	610,550
Less: Current portion	-	(130,070)
Long-Term Notes Payable	$-	$480,480

NOTE 7 – SHAREHOLDERS' EQUITY (DEFICIT)

During the six months ended June 30, 2012, the chief executive officer and shareholder of the Company provided services to the Company, which services were determined by the board of directors to have had a fair value of $125,000. The Company has recognized a capital contribution of $125,000 during the six months ended June 30, 2012 for the services provided by the executive officer.

On March 31, 2012, the Company granted stock options to directors for the purchase of 290,000 shares of common stock at $2.00 per share. The options vested on the date granted. The grant-date fair value of these options was $449,905, or a weighted-average fair value of $1.55 per share, determined by the Black-Scholes option pricing model using the following weighted-average assumptions: expected future volatility of 53%; risk-free interest rate of 0.33%; dividend yield of 0% and an expected term of 2.5 years. The expected volatility was based on a peer company's volatility and the volatility of indexes of the stock prices of companies in the same industry. The risk-free interest rate was based on the U.S. Federal treasury rate for instruments due over the expected term of the options. The expected term of the options was determined based on one half of the contractual term.

Following is a summary of stock option activity as of June 30, 2013 and changes during the six months then ended:

	Shares	Weighted - Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Instrinsic Value
Outstanding, December 31, 2012	2,336,981	$2.29		
Forfeited	(163,207)	1.76		
Outstanding, June 30, 2013	2,173,774	$2.32	6.47	$3,519,106
Exercisable, June 30, 2013	2,173,774	$2.32	6.47	$3,519,106

The Company had 938,000 warrants outstanding at June 30, 2013 at a weighted average exercise price of $2.29 per share, a weighted-average remaining contractual term of 3.36 years and an aggregate intrinsic value of $1,339,000.

Share-based compensation expense charged against operations during the six months ended June 30, 2013 and 2012 was $0 and $449,905,respectively, and was included in selling, general and administrative

F-15

Table of Contents

ACQUIRED SALES CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

expenses. There was no income tax benefit recognized. As of June 30, 2013, all compensation expense related to stock options had been recognized.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

The Company entered into an agreement with a consultant on February 18, 2011 whereby the Company agreed to pay the consultant a fee based on net revenue received by Cogility from two potential new software products. The fee would be equal to 5% of the net revenue received, after deducting software licensing and equipment costs from third parties, from two potential contracts and, for a period of five years, any subsequent revenue from reselling the work product that may result from providing software and services under either of the two potential contracts. No fees were paid or accrued under this agreement during the three and six months ended June 30, 2013 or June 30, 2012.

One of Cogility's employees claims that he has filed a wage claim against Cogility for $302,000 with the California Labor Board. It is the Company's understanding that the California Labor Board declined to consider this claim, and advised the Cogility employee that he should more appropriately pursue his wage claim in the courts. If the Cogility employee pursues his wage claim in the courts, the Company intends to vigorously defend against such claim. The range of potential loss from this claim is up to $302,000 and the Company believes it has adequately provided for this potential claim in the accompanying consolidated financial statements.

The Company is subject to other legal proceedings, claims, and litigation arising in the ordinary course of business. The Company defends itself vigorously against any such claims. Although the outcome of these other matters is currently not determinable, management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

NOTE 9– SALE OF SUBSIDIARY

On January 12, 2013, Acquired Sales entered into an agreement with Drumright Group, LLC (“Drumright”) that was closed on February 11, 2013, wherein Acquired Sales sold 100% of the capital stock of its subsidiary, Cogility Software Corporation (“Cogility”) to Drumright in exchange for $3,975,000 in cash and a $3,000,000 receivable. The $3,000,000 was originally receivable as follows: $1,500,000 on August 11, 2013, less an estimated $32,258 in connection with a certain military contract delay, and $1,500,000 on February 11, 2014. In addition, Acquired Sales was required to hold $300,000 in an escrow account for potential subsequent claims. Acquired Sales was responsible for all costs and expenses and retained all accounts receivable relating to work performed by Cogility on revenue contracts through January 31, 2013, with those costs, expenses and revenue transitioning to Drumright