

ESCALON MEDICAL CORP
Form 10-K
September 28, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2017
Commission File Number 0-20127

Escalon Medical Corp.
(Exact name of registrant as specified in its charter)

Pennsylvania 33-0272839
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
435 Devon Park Drive, Building 100, Wayne, PA 19087
(Address of principal executive offices, including zip code)
(610) 688-6830
(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act: NONE

Securities Registered Pursuant to Section 12(g) of the Act: NONE

Common Stock, par value \$0.001

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90

days. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No

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. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on December 31, 2016 was approximately \$831,000, computed by reference to the price at which the common equity was last sold on the OTCQBBB Market on such date.

As of September 27, 2017, the registrant had 7,551,430 shares of common stock outstanding.

Documents Incorporated by Reference:

Certain information required by Part III of this Annual Report on Form 10-K will be set forth in, and is incorporated by reference from, the registrant's Proxy Statement for the 2017 Annual Meeting of Shareholders.

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PART 1

ITEM 1. BUSINESS

Company Overview

Escalon Medical Corp. (“Escalon” or the “Company”) is a Pennsylvania corporation initially incorporated in California in 1987, and reincorporated in Pennsylvania in November 2001. Within this document, the “Company” collectively shall mean Escalon and its wholly owned subsidiaries: Sonomed, Inc. (“Sonomed”), Trek, Inc. (“Trek”), Escalon Medical Europe GmbH (inactive), Escalon Digital Solutions, Inc. (“EMI”), Escalon Pharmaceutical, Inc. (“Pharmaceutical” inactive), Escalon Holdings, Inc. (“EHI”), Escalon IP Holdings, Inc. and Sonomed IP Holdings. All intercompany accounts and transactions have been eliminated.

The Company operates in the healthcare market, specializing in the development, manufacture, marketing, and distribution of medical devices and pharmaceuticals in the area of ophthalmology.

A-Scans

The A-Scan provides information about the internal structure of the eye by sending a beam of ultrasound along a fixed axis through the eye and displaying the various echoes reflected from the surfaces intersected by the beam. The principal echoes occur at the cornea, both surfaces of the lens and the retina. The system displays the position and magnitudes of the echoes on an electronic display. The A-Scan also includes software for measuring distances within the eye. This information is primarily used to calculate lens power for implants.

B-Scans

The B-Scan is primarily a diagnostic tool that supplies information to physicians where the media within the eye are cloudy or opaque. Whereas physicians normally use light, which cannot pass through such media, the ultrasound beam is capable of passing through the opacity and displaying an image of the internal structures of the eye. Unlike the A-Scan, the B-Scan transducer is not in a fixed position; it swings through a 60 degree sector to provide a two-dimensional image of the eye.

UBM

The UBM is a high frequency/high resolution ultrasound device, designed to provide highly detailed information about the anterior segment of the eye. The UBM is used for glaucoma evaluation, tumor evaluation and differentiation, pre- and post-intraocular lens implantation and corneal refractive surgery. The device allows the surgeons to perform precise measurements within the anterior chamber of the eye. Central corneal thickness is also used in the calculation of intraocular pressure.

Pachymeters

The pachymeter uses the same principles as the A-Scan, but the system is tailored to measure the thickness of the cornea. With the advent of refractive surgery (where the cornea is actually cut and reshaped) this measurement has become critical. Surgeons must know the precise thickness of the cornea so as to set the blade to make a cut of approximately 20% of the thickness of the cornea.

Color/Fluorescein Angiography (“CFA”) Digital Imaging Systems

The CFA (Color/Fluorescein Angiography) digital imaging system is designed specifically for ophthalmology. This diagnostic tool, ideal for use in detecting retinal problems in diabetic and elderly patients, provides a high-resolution image, far superior to conventional film in image quality, processing and capture. The instant image display provides users with the necessary clinical information that allows treatment to be performed while the patient is still in the physician’s office.

Ispan Intraocular Gases

The Company distributes two intraocular gas products C3F8 and SF6, which are used by vitreoretinal surgeons as a temporary tamponade in detached retina surgery. Under a non-exclusive distribution agreement with AirGas, Inc. (AirGas"), the Company distributes packages of AirGas gases in canisters containing up to 25 grams of gas. Along with the intraocular gases, the Company manufactures and distributes a patented disposable universal gas kit, which delivers the gas from the canister to the patient.

Viscous Fluid Transfer Systems

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The Company markets viscous fluid transfer systems and related disposable syringe products, which aid surgeons in the process of injecting and extracting silicone oil. Adjustable pressures and vacuums provided by the equipment allow surgeons to manipulate the flow of silicone oil during surgery.

AXIS Image Management

The AXIS Image management system easily manages images via the web browser from any device regardless of modality, manufacturer or location.

Research and Development

The development of ultrasound ophthalmic equipment is performed at the Company's Lake Success, New York and Stoneham, Massachusetts facilities. Company-sponsored research and development expenditures from operations for the fiscal years ended June 30, 2017 and 2016 were approximately \$1,053,000 and \$1,450,000, respectively.

Manufacturing and Distribution

The Company leases 8,100 square feet of space in Wisconsin, for its surgical products. The facility is currently used for product assembly related to Trek. The Company also leases 3,452 square feet in Stoneham, Massachusetts used primarily for product design and development in the EMI business unit. The Company subcontracts component manufacture, assembly and sterilization to various vendors. The Company's ophthalmic surgical products are distributed from the Company's Wisconsin facility.

The Company designs, develops and services its ultrasound ophthalmic products at its 12,173 square foot facility in Lake Success, New York. The space was reduced to 6,728 after lease renewal in September 2017. The Company has achieved ISO 13485 certification at its manufacturing facilities for all medical devices the Company produces. ISO 13485 requires an implemented quality system that applies to product design, manufacture, installation and servicing. These certifications can be obtained only after a complete audit of a company's quality system by an independent outside auditor. These certifications require that facilities undergo periodic reexamination. The Company has obtained European Community certification ("CE") for many of its ophthalmic ultrasound systems.

The manufacture, testing and marketing of each of the Company's products entails risk of product liability. The Company carries product liability insurance to cover primary risk.

Governmental Regulations

The Company's products are subject to stringent ongoing regulation by the FDA and similar health authorities, and if these governmental approvals or clearances of the Company's products are restricted or revoked, the Company could face delays that would impair the Company's ability to generate funds from operations.

The Company has received the necessary FDA and other necessary regulations clearances and approvals for all products that the Company currently markets. The FDA and comparable agencies in state and local jurisdictions and in foreign countries impose substantial requirements upon the manufacturing and marketing of pharmaceutical and medical device equipment and related disposables, including the obligation to adhere to the FDA's Good Manufacturing Practice regulations. Compliance with these regulations requires time-consuming detailed validation of manufacturing and quality control practices, FDA periodic inspections and other procedures. If the FDA finds any deficiencies in the validation processes, for example, the FDA may impose restrictions on marketing the specific products until such deficiencies are corrected.

The FDA and similar health authorities in foreign countries extensively regulate the Company's activities. The Company must obtain either 510(K) clearances or pre-market approvals and new drug application approvals prior to marketing a product in the United States. Foreign regulation also requires that the Company obtain other approvals from foreign government agencies prior to the sale of products in those countries. Also, the Company may be required to obtain FDA clearance or approval before exporting a product or device that has not received FDA marketing

clearance or approval.

The Company has received CE approval on several of the Company's products that allows the Company to sell the products in the countries comprising the European Community. In addition to the CE mark, some foreign countries require separate individual foreign regulatory clearances.

Marketing and Sales

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The Sonomed product line is sold through internal sales employees as well as independent sales representatives located in the United States and Europe and Asia, to a large network of distributors and directly to medical institutions.

Trek and EMI sell their ophthalmic devices and instruments directly to end users through internal sales and marketing employees located at the Company's Wisconsin and Massachusetts facilities. Sales are primarily made to teaching institutions, key hospitals and eye surgery centers, focusing primarily on physicians and operating room personnel performing vitreoretinal surgery.

Service and Support

The Company maintains a full-service program for all products sold. The Company provides limited warranties on all products against defects and performance. Product repairs are made at the Wisconsin facility for surgical devices, New York facility for Sonomed products and EMI devices in Stoneham facility.

Patents, Trademarks and Licenses

The pharmaceutical and medical device communities place considerable importance on obtaining patent and trade secret protection for new technologies, products and processes for the purpose of strengthening the Company's position in the market place and protecting the Company's economic interests. The Company's policy is to protect its technology by aggressively obtaining patent protection for substantially all of its developments and products, both in the United States and in selected countries outside the United States. It is the Company's policy to file for patent protection in those foreign countries in which the Company believes such protection is necessary to protect its economic interests. The duration of the Company's patents, trademarks and licenses vary through 2020. The Company has 13 United States patents and 19 patents issued abroad that cover the Company's surgical products and pharmaceutical technology.

The Company intends to vigorously defend its patents if the need arises.

Competition

There are numerous direct and indirect competitors of the Company in the United States and abroad. These competitors include ophthalmic-oriented companies that market a broad portfolio of products, including:

- prescription ophthalmic pharmaceuticals, ophthalmic devices, consumer products and other eye care products;
- large integrated pharmaceutical companies that market a limited number of ophthalmic pharmaceuticals in addition to many other pharmaceuticals;
- and smaller specialty pharmaceutical and biotechnology companies that are engaged in the development and commercialization of prescription ophthalmic pharmaceuticals and products and, to some extent, drug delivery systems.

The Company's competitors for medical devices and ophthalmic pharmaceuticals include, but are not limited to, Bausch & Lomb, Inc., Alcon Laboratories, Inc., Paradigm Medical, Inc., Quantel, Inc. and Accutome, Inc.

Several large companies dominate the ophthalmic market, with the balance of the industry being highly fragmented. The Company believes that these large companies capture approximately 85% of the overall ophthalmic market. The balance of the market is comprised of smaller companies ranging from start-up entities to established market players. The ophthalmic market in general is intensely competitive, with each company eager to expand its market share. The Company's strategy is to compete primarily on the basis of technological innovation to which it has proprietary rights. The Company believes, therefore, that its business will depend in large part on protecting its intellectual property through patents and other governmental regulations.

Sonomed's principal competitors are Alcon Laboratories, Inc, Quantel, Inc. and Accutome, Inc. Sonomed has had a leading presence in the ophthalmic ultrasound industry for over 30 years. Management believes that this has helped

Sonomed build a reputation as a long-standing operation that provides a quality product, which has enabled the Company to establish effective distribution coverage within the United States market. Various competitors offering similar products at a lower price could threaten Sonomed's market position. The development of laser technologies for ophthalmic biometrics and imaging may also diminish the Company's market position. This equipment can be used instead of ultrasound equipment in certain applications with some advantage. Such equipment, however, is more expensive.

Trek and EMI sell a broad range of ophthalmic surgical and diagnostic products. The more significant products are ISPAN® gases and delivery systems. Trek and EMI also manufacture various ophthalmic surgical products for major ophthalmic companies to be sold under their names. To remain competitive, the Company needs to maintain a low-cost

operation. There are numerous other companies that can provide this manufacturing service. There are a variety of other devices that directly compete with the camera back and image management systems marketed by EMI.

Human Resources

As of June 30, 2017, the Company employed 46 employees. Of these employees, 21 of the Company's employees are employed in manufacturing, 14 are employed in general and administrative positions, 4 are employed in sales and marketing and 7 are employed in research and development. The Company's employees are not covered by a collective bargaining agreement, and the Company considers its relationship with its employees to be good.

ITEM 1A. RISK FACTORS

Cautionary Factors That May Affect Future Results

Certain statements contained in, or incorporated by reference in, this report are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, which provide current expectations or forecasts of future events. Such statements can be identified by the use of terminology such as "anticipate," "believe," "could," "estimate," "expect," "forecast," "intend," "may," "plan," "possible," "project," "should," "will," and similar words or expressions. The Company's forward-looking statements include certain information relating to general business strategy, growth strategies, financial results, liquidity, product development, the introduction of new products, the enhancement of existing products, the potential markets and uses for the Company's products, the Company's regulatory filings with the FDA, acquisitions, the development of joint venture opportunities, intellectual property and patent protection and infringement, the loss of revenue due to the expiration or termination of certain agreements, the effect of competition on the structure of the markets in which the Company competes, increased legal, accounting and Sarbanes-Oxley compliance costs, the Company's ability to continue as a going concern, defending the Company in litigation matters and the Company's cost-saving initiatives. The reader must carefully consider forward-looking statements and understand that such statements involve a variety of risks and uncertainties, known and unknown, and may be affected by assumptions that fail to materialize as anticipated. Consequently, no forward-looking statement can be guaranteed, and actual results may vary materially. It is not possible to foresee or identify all factors affecting the Company's forward-looking statements, and the reader therefore should not consider the following list of risk factors to be an exhaustive statement of all risks, uncertainties or potentially inaccurate assumptions.

The Company cautions the reader to consider carefully these factors as well as the specific factors discussed with each specific forward-looking statement in this Form 10-K annual report and in the Company's other filings with the Securities and Exchange Commission (the "SEC"). In some cases, these factors have impacted, and in the future (together with other unknown factors) could impact, the Company's ability to implement the Company's business strategy and may cause actual results to differ materially from those contemplated by such forward-looking statements. Any expectation, estimate or projection contained in a forward-looking statement may not be achieved. The Company also cautions the reader that forward-looking statements speak only as of the date made. The Company undertakes no obligation to update any forward-looking statement, but investors are advised to consult any further disclosures by the Company on this subject in the Company's filings with the SEC. Although it is not possible to create a comprehensive list of all factors that may cause actual results to differ from the Company's forward-looking statements, the material factors include, without limitation, the following:

Due to the Company's history of operating losses, the Company's independent registered public accounting firm is uncertain that the Company will be able to continue as a going concern.

The consolidated financial statements included in this report have been prepared assuming that the Company will continue as a going concern. The report of the Company's independent registered public accounting firm issued in conjunction with the financial statements for the year ended June 30, 2017 contains an explanatory paragraph indicating that certain matters (see footnote 1 to the Consolidated Financial Statements) raise substantial doubt about the Company's ability to continue as a going concern. The Company cannot guarantee that it can generate net income, increase revenues or successfully expand its operations in the future, and if it cannot do so, the Company may not be

able to survive and any investment in the Company may be lost.

The Company has implemented an austerity plan to stem the recurring losses. If the Company is unable to achieve improvement in this area in the near term, it is not likely that the Company's existing cash and cash flow from operations will be sufficient to fund activities throughout the next six to 12 months without curtailing certain business activities or selling certain assets. The Company's forecast of the period of time through which its financial resources will be adequate to support

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its operations is a forward-looking statement and involves risks and uncertainties, and actual results could vary as a result of a number of other factors, including the factors discussed in these “Risk Factors.”

This going concern disclosure could adversely affect the Company’s ability to obtain favorable financing terms in the future or to obtain any additional financing if needed. If the Company seeks to raise funds in the future, it may be required to raise those funds through public or private financings, strategic relationships or other arrangements at prices or other terms that may not be as favorable as they would absent such qualification. The sale of additional equity and debt securities may result in additional dilution to the Company’s shareholders. Additional financing may not be available in amounts or on terms acceptable to the Company or at all.

Any acquisitions, strategic alliances, joint ventures and divestitures that the Company effects, if any, could result in financial results that differ from market expectations.

In the normal course of business, the Company engages in discussions with third parties regarding possible acquisitions, strategic alliances, joint ventures and divestitures. As a result of any such transactions, of which the Company cannot assure that any will occur, the Company’s financial results may differ from the investment community’s expectations in a given quarter. In addition, acquisitions and alliances may require the Company to integrate a different company culture, management team, business infrastructure, accounting systems and financial reporting systems. The Company may not be able to effect any such acquisitions or alliances. The Company may have difficulty developing, manufacturing and marketing the products of a newly acquired business in a way that enhances the performance of the Company’s combined businesses or product lines to realize the value from any expected synergies. Depending on the size and complexity of an acquisition, the Company’s successful integration of the entity depends on a variety of factors, including the retention of key employees and the management of facilities and employees in separate geographical areas. These efforts require varying levels of management resources, which may divert the Company’s attention from other business operations. Also, the Company’s results may be adversely impacted because of acquisition-related costs, amortization costs for certain intangible assets and impairment losses related to goodwill in connection with such transactions. Finally, acquisitions or alliances by the Company may not occur, which could impair the Company’s growth.

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred recurring operating losses and negative cash flows from operating activities and is hampered by the transition to new products which involved the discounting of our older product inventory.

These conditions raise substantial doubt about the Company’s ability to continue as a going concern.

The 2017 consolidated financial statements do not include any adjustments relating to the realization of the carrying value of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company’s continuance as a going concern is dependent on its future profitability and on the on-going support of its shareholders, affiliates and creditors. In order to mitigate the going concern issues, the Company is actively pursuing business partnerships, managing our continuing operations, and seeking to sell certain assets. The Company may not be successful in any of these efforts.

The Company’s results fluctuate from quarter to quarter.

The Company has experienced quarterly fluctuations in operating results and anticipates continued fluctuations in the future. A number of factors contribute to these fluctuations:

- The timing and expense of new product introductions by the Company or its competitors, although the Company might not successfully develop new products and any such new products may not gain market acceptance;
- The cancellation or delays in the purchase of the Company’s products;
- Fluctuations in customer demand for the Company’s products;
- Changes in domestic and foreign regulations;
- The gain or loss of significant customers;
- Changes in the mix of products sold by the Company;
- Competitive pressures on prices at which the Company can sell its products;

- Announcements of new strategic relationships by the Company or its competitors;
- Litigation costs and settlements; and

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General economic conditions and other external factors such as energy costs.

The Company sets its spending levels in advance of each quarter based, in part, on the Company's expectations of product orders and shipments during that quarter. A shortfall in revenue, therefore, in any particular quarter as compared to the Company's plan could have a material adverse impact on the Company's results of operations and cash flows. Also, the Company's quarterly results could fluctuate due to general market conditions in the healthcare industry or global economy generally, or market volatility unrelated to the Company's business and operating results. Failure of the market to accept the Company's products could adversely impact the Company's business and financial condition.

The Company's business and financial condition will depend in part upon the market acceptance of the Company's products. The Company's products may not achieve or maintain market acceptance. Market acceptance depends on a number of factors including:

- The price of the products;
- The continued receipt of regulatory approvals for multiple indications;
 - The establishment and demonstration of the clinical safety and efficacy of the Company's products;
 - and
- The advantages of the Company's products over those marketed by the Company's competitors.

Any failure to achieve or maintain significant market acceptance of the Company's products will have a material adverse impact on the Company's business.

The Company's products are subject to stringent ongoing regulation by the FDA and similar domestic and foreign health care regulatory authorities, and if the regulatory approvals or clearances of the Company's products are restricted or revoked, the Company could face delays that would impair the Company's ability to generate funds from operations.

The FDA and similar health care regulatory authorities in foreign countries extensively regulate the Company's activities. The Company must obtain either 510(K) clearances or pre-market approvals and new drug application approvals prior to marketing any products in the United States. Foreign regulation also requires that the Company obtain other approvals from foreign government agencies prior to the sale of products in those countries. Also, the Company may be required to obtain FDA approval before exporting a product or device that has not received FDA marketing clearance or approval.

The Company has received the necessary FDA approvals for all products that the Company currently markets in the United States. Any restrictions on or revocation of the FDA approvals and clearances that the Company has obtained, however, would prevent the continued marketing of the impacted products and other devices. The restrictions or revocations could result from the discovery of previously unknown problems with the product. Consequently, FDA revocation would impair the Company's ability to generate funds from operations.

The FDA and comparable agencies in state and local jurisdictions and in foreign countries impose substantial requirements upon the manufacturing and marketing of pharmaceutical and medical device equipment and related disposables, including the obligation to adhere to the FDA's Good Manufacturing Practice regulations. Compliance with these regulations requires time-consuming detailed validation of manufacturing and quality control processes, FDA periodic inspections and other procedures. If the FDA finds any deficiencies in the validation processes, for example, the FDA may impose restrictions on marketing the specific products until such deficiencies are corrected. The Company has received CE approval on several of the Company's products that allows the Company to sell the products in the countries comprising the European Community. In addition to the CE mark, however, some foreign countries may require separate individual foreign regulatory clearances. The Company may not be able to obtain regulatory clearances for other products in the United States or foreign markets.

The process for obtaining regulatory clearances and approvals underlying clinical studies for any new products or devices and for multiple indications for existing products is lengthy and will require substantial commitments of Company's financial resources and Company's management's time and effort. Any delay in obtaining clearances or approvals or any changes in existing regulatory requirements would materially adversely impact the Company's business.

The Company's failure to comply with the applicable regulations would subject the Company to fines, delays or suspensions of approvals or clearances, seizures or recalls of products, operating restrictions, injunctions or civil or criminal penalties, which would adversely impact the Company's business, financial condition and results of operations.

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The success of products with which the Company's products compete could have an adverse impact on the Company's business.

The Company faces intense competition in the medical device and pharmaceutical markets, which are characterized by rapidly changing technology, short product life cycles, cyclical oversupply and rapid price erosion. Many of the Company's competitors have substantially greater financial, technical, marketing, distribution and other resources. The Company's strategy is to compete primarily on the basis of technological innovation, reliability, quality and price of the Company's products. Without timely introductions of new products and enhancements, the Company's products will become technologically obsolete over time, in which case the Company's revenues and operating results would suffer. The success of the Company's new product offerings will depend on several factors, including the Company's ability to:

- Properly identify customer needs;
- Innovate and develop new technologies, services and applications;
- Establish adequate product distribution coverage;
- Obtain and maintain required regulatory approvals from the FDA and other regulatory agencies;
- Protect the Company's intellectual property;
- Successfully commercialize new technologies in a timely manner;
- Manufacture and deliver the Company's products in sufficient volumes on time;
- Differentiate the Company's offerings from the offerings of the Company's competitors;
- Price the Company's products competitively;
- Anticipate competitors' announcements of new products, services or technological innovations; and
- Anticipate general market and economic conditions.

The Company may not be able to compete effectively in the competitive environments in which the Company operates.

The Company's products employ proprietary technology, and this technology may infringe on the intellectual property rights of third parties.

The Company holds several United States and foreign patents for the Company's products. Other parties, however, hold patents relating to similar products and technologies. If patents held by others were adjudged valid and interpreted broadly in an adversarial proceeding, the court or agency could deem them to cover one or more aspects of the Company's products or procedures. Any claims for patent infringements or claims by the Company for patent enforcement would consume time, result in costly litigation, divert technical and management personnel or require the Company to develop non-infringing technology or enter into royalty or licensing agreements. The Company may become subject to one or more claims for patent infringement. The Company may not prevail in any such action, and the Company's patents may not afford protection against competitors with similar technology.

If a court determines that any of the Company's products infringes, directly or indirectly, on a patent in a particular market, the court may enjoin the Company from making, using or selling the product. Furthermore, the Company may be required to pay damages or obtain a royalty-bearing license, if available, on acceptable terms.

Lack of availability of key system components could result in delays, increased costs or costly redesign of the Company's products.

Although some of the parts and components used to manufacture the Company's products are available from multiple sources, the Company currently purchases most of the Company's components and outsourced finished goods from single sources in an effort to obtain volume discounts. Lack of availability of any of these parts, components and finished goods could result in production delays, increased costs or costly redesign of the Company's products. Any loss of availability of an essential component or finished good could result in a material adverse change to the Company's business, financial condition and results of operations. Some of the Company's suppliers are subject to the FDA's Good Manufacturing Practice regulations. Failure of these suppliers to comply with those regulations could result in the delay or limitation of the supply of parts or components to the Company, which would adversely impact the Company's financial condition and results of operations.

The Company's ability to market or sell the Company's products may be adversely impacted by limitations on reimbursements by government programs, private insurance plans and other third party payers.

The Company's customers bill various third party payers, including government programs and private insurance plans, for the health care services provided to their patients. Third party payers may reimburse the customer, usually at a fixed rate

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based on the procedure performed, or may deny reimbursement if they determine that the use of the Company's products was elective, unnecessary, inappropriate, not cost-effective, experimental or used for a non-approved indication. Third party payers may deny reimbursement notwithstanding FDA approval or clearance of a product and may challenge the prices charged for the medical products and services. The Company's ability to sell the Company's products on a profitable basis may be adversely impacted by denials of reimbursement or limitations on reimbursement, compared with reimbursement available for competitive products and procedures. New legislation that further reduces reimbursements under the capital cost pass-through system utilized in connection with the Medicare program could also adversely impact the marketing of the Company's products.

The Company may become involved in product liability litigation, which may subject the Company to liability and divert management attention.

The testing and marketing of the Company's products entails an inherent risk of product liability, resulting in claims based upon injuries or alleged injuries or a failure to diagnose associated with a product defect. Some of these injuries may not become evident for a number of years. Although the Company is not currently involved in any product liability litigation, the Company may be party to litigation in the future as a result of an alleged claim. Litigation, regardless of the merits of the claim or outcome, could consume a great deal of the Company's time and attention away from the Company's core businesses. The Company maintains limited product liability insurance coverage of \$1,000,000 per occurrence and \$2,000,000 in the aggregate, with umbrella policy coverage of \$5,000,000 in excess of such amounts. A successful product liability claim in excess of any insurance coverage may adversely impact the Company's financial condition and results of operations. The Company's product liability insurance coverage may not continue to be available to the Company in the future on reasonable terms or at all.

The Company's international operations could be adversely impacted by changes in laws or policies of foreign governmental agencies and social and economic conditions in the countries in which the Company operates.

The Company derives a portion of its revenue from sales outside the United States. Changes in the laws or policies of governmental agencies, as well as social and economic conditions, in the countries in which the Company operates could impact the Company's business in these countries and the Company's results of operations. Also, economic factors, including inflation and fluctuations in interest rates and foreign currency exchange rates, and competitive factors such as price competition, business combinations of competitors or a decline in industry sales from continued economic weakness, both in the United States and other countries in which the Company conducts business, could adversely impact the Company's results of operations.

The Company is dependent on its management and key personnel to succeed.

The Company's principal executive officers and technical personnel have extensive experience with the Company's products, the Company's research and development efforts, the development of marketing and sales programs and the necessary support services to be provided to the Company's customers. Also, the Company competes with other companies, universities, research entities and other organizations to attract and retain qualified personnel. The loss of the services of any of the Company's executive officers or other technical personnel, or the Company's failure to attract and retain other skilled and experienced personnel, could have a material adverse impact on the Company's ability to maintain or expand businesses.

The market price of the Company's stock has historically been volatile, and the Company has not paid cash dividends. The volatility of the Company's common stock imposes a greater risk of capital losses on shareholders as compared to less volatile stocks. In addition, such volatility makes it difficult to ascribe a stable valuation to a shareholder's holdings of the Company's common stock. The following factors have and may continue to have a significant impact on the market price of the Company's common stock:

- Acquisitions, strategic alliances, joint ventures and divestitures that the Company effects, if any;
- Announcements of technological innovations;
- Changes in marketing, product pricing and sales strategies or new products by the Company's competitors;
- Changes in domestic or foreign governmental regulations or regulatory requirements; and
-

Developments or disputes relating to patent or proprietary rights and public concern as to the safety and efficacy of the procedures for which the Company's products are used.

Moreover, the possibility exists that the stock market, and in particular the securities of technology companies such as the Company, could experience extreme price and volume fluctuations unrelated to operating performance.

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The Company has not paid cash dividends on its common stock and does not anticipate paying cash dividends in the foreseeable future.

If the Company raises funds in the future, the Company may be required to raise those funds through public or private financings, strategic relationships or other arrangements at prices and other terms that may not be favorable. The sale of additional equity and debt securities may result in additional dilution to the Company's shareholders. Additional financing may not be available in amounts or on terms acceptable to us or at all.

The impact of terrorism or acts of war could have a material adverse impact on the Company's business.

Terrorist acts or acts of war, whether in the United States or abroad, could cause damage or disruption to the Company's operations, its suppliers, channels to market or customers, or could cause costs to increase, or create political or economic instability, any of which could have a material adverse impact on the Company's business.

The Company's charter documents and Pennsylvania law may inhibit a takeover.

Certain provisions of Pennsylvania law and the Company's Bylaws could delay or impede the removal of incumbent directors and could make it more difficult for a third party to acquire, or discourage a third party from attempting to acquire, control of the Company. These provisions could limit the share price that certain investors might be willing to pay in the future for shares of the Company's common stock. The Company's Board of Directors is divided into three classes, with directors in each class elected for three-year terms. The Bylaws impose various procedural and other requirements that could make it more difficult for shareholders to effect certain corporate actions. The Company's Board of Directors may issue shares of preferred stock without shareholder approval on such terms and conditions, and having such rights, privileges and preferences, as the Board may determine. The rights of the holders of common stock will be subject to, and may be adversely impacted by, the rights of the holders of any preferred stock that may be issued in the future. The Company has no current plans to issue any shares of preferred stock.

There are inherent uncertainties involved in estimates, judgments and assumptions used in the preparation of financial statements in accordance with United States GAAP. Any changes in estimates, judgments and assumptions used could have a material adverse effect on the Company's business, financial position and operating results.

The consolidated financial statements included in the periodic reports the Company files with the SEC are prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. The preparation of financial statements in accordance with GAAP involves making estimates, judgments and assumptions that affect reported amounts of assets (including intangible assets), liabilities and inventories and related valuation allowances, revenues, expenses and income. This includes estimates, judgments and assumptions for assessing the recoverability of the Company's goodwill and other intangible assets, pursuant to Financial Accounting Standards Board ("FASB") issued authoritative guidance. If any estimates, judgments or assumptions change in the future, the Company may be required to record additional expenses or impairment charges. Any resulting expense or impairment loss would be recorded as a charge against our earnings and could have a material adverse impact on our financial condition and operating results. Estimates, judgments and assumptions are inherently subject to change in the future, and any such changes could result in corresponding changes to the amounts of assets (including goodwill and other intangible assets), liabilities, revenues, expenses and income. Any such changes could have a material adverse effect on the Company's financial position and operating results.

On an on-going basis, the Company evaluates its estimates, including, among others, those relating to:

- sales returns;
 - allowances for doubtful accounts;
 - inventories and related valuation allowances;
 - intangible assets and goodwill;
 - income and other tax accruals;
 - deferred tax asset valuation allowances;
 - sales discounts;
 - warranty obligations; and
 - accrued lease termination costs
- contingencies and litigation.

The Company bases its estimates on historical experience and on various other assumptions that the Company believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the

carrying values of assets and liabilities that are not readily apparent from other sources. The Company's assumptions and estimates may, however,

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prove to have been incorrect and the Company's actual results may differ from these estimates under different assumptions or conditions. While the Company believes the assumptions and estimates it makes are reasonable, any changes to the Company's assumptions or estimates, or any actual results which differ from the Company's assumptions or estimates, could have a material adverse effect on the Company's financial position and operating results.

Healthcare policy changes, including pending proposals to reform the U.S. healthcare system and implementation of the Affordable Healthcare Act, may have a material adverse effect on the Company.

Healthcare costs have risen significantly over the past decade. There have been and continue to be proposals by legislators, regulators and third-party payors to keep these costs down. Certain proposals, if passed, would impose limitations on the prices the Company will be able to charge for the Company's products, or the amounts of reimbursement available for its products from governmental agencies or third-party payers. These limitations could have a material adverse effect on the Company's financial position and results of operations.

Changes in the healthcare industry in the U.S. and elsewhere could adversely affect the demand for the Company's products as well as the way in which the Company conducts the Company's business. On March 23, 2010, health reform legislation was approved by Congress and has been signed into law. The healthcare reform act provides that most individuals must have health insurance, establishes new regulations on health plans, and creates insurance pooling mechanisms and other expanded public health care measures.

The Company anticipates that out of the reform legislation will come a reduction in Medicare spending on services provided by hospitals and other providers and a form of sales or excise tax on the medical device manufacturing sector. Various healthcare reform proposals have also emerged at the federal and state level. The Company cannot predict what healthcare initiatives, if any, will be implemented at the federal or state level, or the effect any future legislation or regulation will have on the Company. However, an expansion in government's role in the U.S. healthcare industry may lower reimbursements for the Company's products, reduce medical procedure volumes and adversely affect the Company's business, possibly materially.

Future legislation or changes in government programs may adversely impact the market for the Company's products. From time to time, the federal government and Congress have made proposals to change aspects of the delivery and financing of health care services. The Company cannot predict what form any future legislation or regulation may take or its impact on the Company's business. Legislation that sets price limits and utilization controls adversely impact the rate of growth of the markets in which the Company participates. If any future health care legislation or regulations were to adversely impact those markets, the Company's product marketing could also suffer, which would adversely impact the Company's business.

The line of credit outstanding advance is limited by the Inventory advance limit or percentage limitation.

On December 29, 2016, the Company entered into a credit agreement providing the Company up to an aggregate of \$250,000 in cash, secured by the Company's inventory. The Company, and its wholly owned subsidiary Sonomed, Inc., entered into an Inventory Advance Agreement as of December 29, 2016 (the "Agreement"), with CDS Business Services, Inc., doing business as Newtek Business Credit ("Newtek"). Newtek may in its discretion make loans against the Company's Eligible Inventory in an aggregate amount outstanding at any time up to the lesser of (i) fifty percent (50%) of the Inventory Value or (ii) the Inventory Advance Limit, as those terms are defined in the Agreement, which is currently \$250,000. The credit agreement renews annually and can be terminated upon 90 days written notice from the Company or 30 days written notice from NewTek.

If, at any time and for any reason, the aggregate amount of the outstanding advances under the Agreement exceeds the Inventory Advance Limit or percentage limitation contained in the preceding sentence, then Company must, upon demand by Newtek, immediately pay to Newtek, in cash, the amount of such excess, or at Newtek's option Newtek may charge such excess against any reserves held by Newtek.

ITEM 1B. UNRESOLVED STAFF COMMENTS

The Company does not believe there are any unresolved SEC staff comments.

ITEM 2. PROPERTIES

As of June 30, 2017 the Company leased an aggregate of 8,150 square feet of space for its (i) corporate offices in Wayne, Pennsylvania, (ii) Sonomed's manufacturing facility in Lake Success, New York, (iii) Trek's distribution facility in New Berlin, Wisconsin, and (iv) EMI's product design and development facility in Stoneham, Massachusetts. The Company's corporate office lease is for 3,954 square feet located in 435 Devon Park Drive, Pennsylvania under a five-year lease agreement. The New York facility lease previously at 12,173 was reduced to 6,728 square feet of space after lease renewal in September 2017 and the new lease will expire on December 31, 2024. The Wisconsin lease, of 8,100 square feet of space will expire in July 2018. The Massachusetts lease covers 3,452 square feet and will expire in August 2018. Annual rent under all of the Company's property lease arrangements was approximately \$570,000 for the year ended June 30, 2017.

The Company guaranteed the lease payment for BHH and during fiscal year 2015 the Company was informed by French Counsel that the total amount claimed by the BHH landlord in the liquidation of BHH was approximately \$86,000. The Company did not have insight into the French liquidation process due to the Liquidator's reticence to communicate with the Company. As such, the Company had accrued the present value of the maximum amount potentially due under the lease guaranteed by the Company on behalf of BHH. The landlord's claim under liquidation can not be revisited by the landlord and can only be potentially increased by interest or sundry expenses. The Company has accrued lease termination costs of \$91,000 and \$89,000 as of June 30, 2017 and 2016, respectively.

ITEM 3. LEGAL PROCEEDINGS

The Company, from time to time is involved in various legal proceedings and disputes that arise in the normal course of business. These matters have previously and could pertain to intellectual property disputes, commercial contract disputes, employment disputes, and other matters. The Company does not believe that the resolution of any of these matters has had or is likely to have a material adverse impact on the Company's business, financial condition or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock trades on the OTCQB Market under the symbol "ESMC." Since November 18, 2016, the Company's common stock was suspended from trading on the NASDAQ stock market effective at the opening of trading on November 18, 2016. The table below sets forth, for the periods indicated, the high and low sales prices as quoted on the NASDAQ stock market until November 18, 2016 and thereafter on OTCQB Market.

	High	Low
Fiscal year ended June 30, 2017		
Quarter ended September 30, 2016	\$1.29	\$0.65
Quarter ended December 31, 2016	\$0.67	\$0.07
Quarter ended March 31, 2017	\$0.19	\$0.09
Quarter ended June 30, 2017	\$0.24	\$0.08
Fiscal year ended June 30, 2016		
Quarter ended September 30, 2015	\$1.55	\$1.05
Quarter ended December 31, 2015	\$1.25	\$1.01
Quarter ended March 31, 2016	\$1.07	\$0.79

Quarter ended June 30, 2016 \$0.91 \$0.67

As of September 27, 2017 there were 1,304 holders of record of the Company's common stock. On September 27, 2017 the closing price of the Company's Common Stock as reported by the OTCQB Market was \$0.14 per share. The Company has never declared or paid a cash dividend on its common stock and presently intends to retain any future earnings to finance future growth and working capital needs.

The Company's forecast of the period of time through which its financial resources will be adequate to support its operations is a forward-looking statement and involves risks and uncertainties, and actual results could vary as a result of a

number of factors, including the factors discussed in “Risk Factors” included in this Form 10-K. If the Company raises funds in the future, the Company may be required to raise those funds through public or private financings, strategic relationships or other arrangements at prices and other terms that may not be as favorable as they would without such qualification. The sale of additional equity and debt securities may result in additional dilution to the Company’s shareholders. Additional financing may not be available in amounts or on terms acceptable to the Company or at all.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read together with the consolidated financial statements and notes thereto and other financial information contained elsewhere in this Form 10-K and the discussion under “Risk Factors” included in Item IA of this Form 10-K.

Executive Overview—Fiscal Years Ended June 30, 2017 and 2016

The following highlights are discussed in further detail within this Form 10-K. The reader is encouraged to read this Form 10-K in its entirety to gain a more complete understanding of factors impacting Company performance and financial condition.

Product revenue from continuing operations decreased approximately \$341,000 or 2.9% during the fiscal year ended June 30, 2017 as compared to the prior fiscal year. The decrease in revenue is attributed to decrease in Digital products of \$190,000 and a decrease in sales of Trek products of \$161,000 offset by an increase in sales in Sonomed's ultrasound products of \$10,000.

Cost of goods sold as a percentage of product revenue from continuing operations increased to approximately 54.1% of product revenues during the fiscal year ended June 30, 2017, as compared to approximately 53.5% of product revenue for the prior fiscal year. The increase of 0.6% in cost of goods sold as a percentage of revenue is mainly due to the decreased sales of higher margin Digital products.

Operating expenses decreased approximately 11.3% during the fiscal year ended June 30, 2017, as compared to the prior fiscal year. This was due to decreased marketing, general and administrative expenses of 9.2% and by a decrease of 27.4% in research and development offset by a loss from a goodwill impairment of \$125,000 in the fourth quarter.

Results of Operations

Fiscal Years Ended June 30, 2017 and 2016

The following table shows consolidated product revenue, as well as identifying trends in revenues for the fiscal years ended June 30, 2017 and 2016. Table amounts are in thousands:

	Fiscal Years Ended June 30,		
	2017	2016	% Change
Product Revenue:			
Sonomed-Escalon	\$11,235	\$11,576	(2.9)%
Total	\$11,235	\$11,576	(2.9)%

Consolidated product revenue decreased approximately \$341,000 or 2.9%, to \$11,235,000 during the year ended June 30, 2017 as compared to the last fiscal year, resulting from a decrease in Digital products of \$190,000 and a decrease in sales of Trek products of \$161,000 off set by an increase in sales of Sonomed ultrasound products of \$10,000.

The following table presents consolidated cost of goods sold and as a percentage of revenues for the fiscal years ended June 30, 2017 and 2016. Table amounts are in thousands:

	Fiscal Years Ended June 30,			
	2017	%	2016	%
Cost of Goods Sold:				
Sonomed-Escalon	\$6,080	54.1%	\$6,198	53.5%
Total	\$6,080	54.1%	\$6,198	53.5%

Consolidated cost of goods sold totaled approximately \$6,080,000, or 54.1%, of product revenue for the fiscal year ended June 30, 2017, as compared to \$6,198,000, or 53.5%, of product revenue for the prior fiscal year. The increase of 0.6% in cost of goods sold as a percentage of revenue is mainly due to decreased sales of higher margin Digital products.

The following table presents consolidated marketing, general and administrative expenses as well as identifying trends in marketing, general and administrative expenses for the fiscal years ended June 30, 2017 and 2016. Table amounts are in thousands:

	Fiscal Years Ended June 30,		
	2017	2016	% Change
Marketing, General and Administrative:			
Sonomed-Escalon	\$ 4,603	\$ 5,069	(9.2)%
Total	\$ 4,603	\$ 5,069	(9.2)%

Consolidated marketing, general and administrative expenses decreased \$466,000, or 9.2%, to \$4,603,000 during the fiscal year ended June 30, 2017, as compared to the prior fiscal year due to cost-cutting measures. The decrease is due to decreased salary expense, consulting expenses, health insurance, commission, travel expense, and stock option expenses offset by royalties and employee moving expense.

The following table presents consolidated research and development expenses for the fiscal years ended June 30, 2017 and 2016.

Table amounts are in thousands:

	Fiscal Years Ended June 30,		
	2017	2016	% Change
Research and Development:			
Sonomed Escalon	\$ 1,053	\$ 1,450	(27.4)%
Total	\$ 1,053	\$ 1,450	(27.4)%

Consolidated research and development expenses decreased \$397,000, or 27.4% of product revenue, to \$1,053,000 during the fiscal year ended June 30, 2017, as compared to the prior fiscal year. Research and development expenses were primarily expenses associated with the introduction of new or enhanced products. The decrease in Research and Development expense is due to the decrease in headcount and consulting expense.

No customer represented more than 10.0% of consolidated revenue for the years ended June 30, 2017 and 2016.

Foreign sales in 2017 increased \$160,000 or 3.4% to \$4,821,000.

	2017	2016
Sonomed-Escalon	\$4,821,000	\$4,661,000
Total	\$4,821,000	\$4,661,000

Total Net Revenue	\$ 11,235,000	\$ 11,576,000
	42.9	% 40.3

The Company tests goodwill for possible impairment on an annual basis at June 30, and at any other time events occur or circumstances indicate that the carrying amount of goodwill may be impaired. As a result of the Company's testing during the fourth quarter of the year ended June 30, 2017, the goodwill carrying amount of \$125,027 was deemed impaired and written off. During the year ended June 30, 2016, no impairments were recorded.

Liquidity and Capital Resources

The following table presents overall liquidity and capital resources as of June 30, 2017 and 2016. Table amounts are in thousands:

	June 30,	
	2017	2016
Current Ratio:		
Current assets	\$4,155	\$4,541
Less: Current liabilities	3,001	2,784
Working capital	\$1,154	\$1,757
Current ratio	1.38 to	1.63 to
	1	1
Debt to Total Capital Ratio:		
Notes payable, line of credit and current portion of long-term debt	\$795	\$275
Total debt	795	275
Total equity	1,184	1,910
Total capital	\$1,979	\$2,185
Total debt to total capital	40.2	% 12.6 %

Working Capital Position

Working capital decreased \$603,000 as of June 30, 2017, and the current ratio decreased to 1.38 to 1 from 1.63 to 1 when compared to June 30, 2016.

Overall total current assets decreased \$386,000 to \$4,155,000 in 2017 from \$4,541,000 in 2016. Total current liabilities, which consists of current portion of post-retirement pension benefits, accounts payable, accrued expenses, and liabilities of discontinued operations, increased \$217,000 to \$3,001,000 in 2017 from \$2,784,000 in 2016 due to the increase in short-term debt and related party note payable.

Cash Used In or Provided By Operating Activities

During fiscal 2017, the Company used approximately \$506,000 of cash for operating activities as compared to using approximately \$1,021,000 for operating activities during the year ended June 30, 2016.

For the year ended June 30, 2017, the Company had a net loss of \$727,000. Cash outflows were mainly due to a decrease in accounts payable and accrued expenses of \$306,000 and a decrease in accrued post retirement benefits of \$36,000, partially offset by the cash inflow from a decrease in accounts receivable of \$131,000, a decrease in inventory of \$189,000, a decrease in other current assets of \$69,000, non cash items of depreciation and amortization of \$46,000, loss from goodwill impairment of \$125,000 and an increase in liabilities of discontinued operations of \$2,000.

For the year ended June 30, 2016, the Company had a net loss of \$1,152,000. Cash outflows were mainly due to an increase in other current assets of \$36,000, and a decrease in accounts payable and accrued expenses of \$255,000, partially offset by the cash inflow from a decrease in accounts receivable of \$171,000 and inventory of \$112,000, an increase in accrued post retirement benefits of \$38,000, non cash items of depreciation and amortization of \$25,000, stock compensation of \$20,000 and compensation expense related to stock options of \$52,000.

Cash Flows Used In Investing and Financing Activities

Cash flows used in investing activities for 2017 were approximately \$8,000 related to the purchase of licenses for continuing operations.

Cash flows used in investing activities for 2016 were approximately \$56,000 related to the purchase of fixed assets for continuing operations and \$176,000 purchase of licenses for continuing operations.

Any necessary capital expenditures have generally been funded out of cash from operations, and the Company is not aware of any factors that would cause historical capital expenditure levels to not be indicative of capital expenditures in the

future and, accordingly, does not believe that the Company will have to commit material resources to capital investment for the foreseeable future.

During 2017 the cash inflow from financing activities of \$520,000 were due to proceeds from related party note payable of \$270,000 and proceeds from the line of credit of \$250,000.

During 2016 the cash inflow from financing activities of \$275,000 were due to proceeds from related party note payable.

On December 29, 2016, the Company entered into a credit agreement providing the Company up to an aggregate of \$250,000 in cash, secured by the Company's inventory. The Company, and its wholly owned subsidiary Sonomed, Inc., entered into an Inventory Advance Agreement as of December 29, 2016 (the "Agreement"), with CDS Business Services, Inc., doing business as Newtek Business Credit ("Newtek"). Newtek may in its discretion make loans against the Company's Eligible Inventory in an aggregate amount outstanding at any time up to the lesser of (i) fifty percent (50%) of the Inventory Value or (ii) the Inventory Advance Limit, as those terms are defined in the Agreement, which is currently \$250,000. The credit agreement renews annually and can be terminated upon 90 days written notice from the Company or 30 days written notice from Newtek.

If, at any time and for any reason, the aggregate amount of the outstanding advances under the Agreement exceeds the Inventory Advance Limit or percentage limitation contained in the preceding sentence, then Company must, upon demand by Newtek, immediately pay to Newtek, in cash, the amount of such excess, or at Newtek's option Newtek may charge such excess against any reserves held by Newtek.

Newtek will maintain reserves against Company's availability for advances and may maintain reserves against the Company's accounts and/or ineligible inventory as well, or maintain a cash collateral deposit account, as Newtek in its discretion deems appropriate. Newtek may also increase such reserves or reduce its advance percentages based on eligible inventory without declaring an event of default and without prior notice, if it determines, in its discretion, that such increase in reserves or reduction is necessary, including, without limitation, to protect its interest in the collateral and/or against diminution in the value of any collateral, and/or to insure the prospect of payment or performance by Company of its obligations to Newtek are not impaired.

Interest will accrue on the daily balance at the per annum rate of 5.00% above the Prime Rate (currently 4.25%), but not less than 5.0%. The current annual interest rate is 9.25% as of June 30, 2017. The Company's obligations will, at the option of Newtek, (i) from and after the occurrence of an event of default, or (ii) if the Company's obligations are not paid in full by the termination date, bear interest at the per annum rate of 10.00% above the prime rate. All interest payable by under the financing documents will be computed on the basis of a 360 day year for the actual number of days elapsed on the daily balance. The Company was also obligated to pay to Newtek a closing fee equal to 1.00% of the Advance Limit.

Upon any renewal of the Agreement, an annual fee will be due from Company equal to 1.00% of the Advance Limit. In consideration of monitoring, ledgering and other administrative functions undertaken by Newtek in connection with the Company's inventory, and the merchant processor, Company is obligated pay Newtek a monthly collateral monitoring fee calculated by multiplying (i) seventy basis points (0.70%) (approximately an annual rate of 8.5%) (except during the existence of an Event of Default at which time it shall be 1%) by (ii) the amount of the average daily balances during the calendar month preceding the month for which the calculation is made.

The foregoing description of the Agreement does not purport to be complete and is qualified in its entirety by reference to the Agreement, a copy of which is attached to the Form 8-K report dated December 29, 2016. As of June 30, 2017, the line of credit balance is at \$250,000. The line of credit interest expense is \$33,000 for the year ended June 30, 2017.

Common Stock

The Company's common stock has been quoted on the OTCQB Market since November 18, 2016. The OTCQB Venture Market requires companies be current in their reporting and must undergo an annual verification and management certification process. Companies must also meet a minimum (\$0.01) bid test and may not be in bankruptcy.

The Company's forecast of the period of time through which its financial resources will be adequate to support its operations is a forward-looking statement and involves risks and uncertainties, and actual results could vary as a result of a number of factors, including the factors discussed in "Risk Factors" included in this Form 10-K . If the Company raises funds in the future, the Company may be required to raise those funds through public or private financings, strategic relationships or other arrangements at prices and other terms that may not be as favorable as they would without such qualification. The sale of

additional equity and debt securities may result in additional dilution to the Company's shareholders. Additional financing may not be available in amounts or on terms acceptable to the Company or at all.

Critical Accounting Policies

The preparation of financial statements requires management to make estimates and assumptions that impact amounts reported therein. The most significant of those involve the application of FASB issued authoritative guidance concerning Revenue Recognition, Goodwill and Other Intangible Assets, discussed further in the notes to consolidated financial statements included in this Form 10-K. The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, and, as such, include amounts based on informed estimates and judgments of management. For example, estimates are used in determining valuation allowances for deferred income taxes, uncollectible receivables, obsolete inventory, sales returns and rebates warranty liabilities and purchased intangible assets. Actual results achieved in the future could differ from current estimates. The Company used what it believes are reasonable assumptions and, where applicable, established valuation techniques in making its estimates.

Revenue Recognition

The Company recognizes revenue from the sale of its products at the time of shipment, when title and risk of loss transfer. The Company provides products to its distributors at agreed upon wholesale prices and to the balance of its customers at set retail prices. Distributors can receive discounts for accepting high volume shipments. The discounts are reflected immediately in the net invoice price, which is the basis for revenue recognition. No further material discounts are given.

The Company's considerations for recognizing revenue upon shipment of product to a distributor are based on the following:

- Persuasive evidence that an arrangement (purchase order and sales invoice) exists between a willing buyer (distributor) and the Company that outlines the terms of the sale (company information, quantity of goods, purchase price and payment terms). The buyer (distributor) does not have a right of return.
- Shipping terms are ex-factory shipping point. At this point the buyer (distributor) takes title to the goods and is responsible for all risks and rewards of ownership, including insuring the goods as necessary.
- The Company's price to the buyer (distributor) is fixed and determinable as specifically outlined on the sales invoice. The sales arrangement does not have customer cancellation or termination clauses.
- The buyer (distributor) places a purchase order with the Company; the terms of the sale are cash, COD or credit.
- Customer credit is determined based on the Company's policies and procedures related to the buyer's (distributor's) creditworthiness. Based on this determination, the Company believes that collectability is reasonably assured. The Company assesses collectability based on creditworthiness of the customer and past transaction history. The Company performs ongoing credit evaluations of its customers and does not require collateral from its customers. For many of the Company's international customers, the Company requires an irrevocable letter of credit to be issued by the customer before the purchase order is accepted.

Valuation of Intangible Assets

The Company annually evaluates for impairment its intangible assets and goodwill in accordance with the provisions of FASB issued authoritative guidance for Goodwill and Other Intangible Assets, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. These intangible assets include goodwill, trademarks and trade names. Recoverability of these assets is measured by comparison of their carrying amounts to future discounted cash flows the assets are expected to generate. If identifiable intangibles are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the assets exceeds its fair market value. The Company does not amortize intangible assets with indefinite useful lives, rather such assets are required to be tested for impairment at least annually or sooner whenever events or changes in circumstances indicate that the assets may be impaired. The Company performs its intangible asset impairment tests on or about June 30, of each year. Any such impairment charge could be significant and could have a material adverse impact on the Company's financial statements if and when an impairment charge is recorded. As a result of the Company's testing during the year ended June 30, 2017, the goodwill carrying amount of \$125,027 was deemed impaired and written off. During the year ended June 30, 2016, no impairments were recorded.

Income/(Loss) Per Share

The Company computes net income/(loss) per share under the provisions of FASB issued authoritative guidance. Under the provisions of FASB issued authoritative guidance, basic and diluted net income/(loss) per share is computed by dividing the net income/(loss) for the period by the weighted average number of shares of common stock outstanding during the period. The calculation of diluted net income/(loss) per share excludes potential common shares if the impact is anti-dilutive. Basic earnings per share are computed by dividing net income/(loss) by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share are determined in the same manner as basic earnings per share, except that the number of shares is increased by assuming exercise of dilutive stock options and warrants using the treasury stock method.

Taxes

Estimates of taxable income of the various legal entities and jurisdictions are used in the tax rate calculation. Management uses judgment in estimating what the Company's income will be for the year. Since judgment is involved, there is a risk that the tax rate may significantly increase or decrease in any period.

In determining income/(loss) for financial statement purposes, management must make certain estimates and judgments. These estimates and judgments occur in the calculation of certain tax liabilities and in the determination of the recoverability of certain deferred tax assets, which arise from temporary differences between the tax and financial statement recognition of revenue and expense. FASB issued authoritative guidance concerning accounting for income taxes also requires that the deferred tax assets be reduced by a valuation allowance, if based on the available evidence, it is more likely than not that all or some portion of the recorded deferred tax assets will not be realized in future periods.

In evaluating the Company's ability to recover the Company's deferred tax assets, management considers all available positive and negative evidence including the Company's past operating results, the existence of cumulative losses and near-term forecasts of future taxable income that is consistent with the plans and estimates management is using to manage the underlying businesses.

Through June 30, 2017, the Company has recorded a valuation allowance against the deferred tax assets resulting from the Company's net operating losses for all of the deferred tax asset due to uncertainty of their realization as a result of the Company's earnings history, the number of years the Company's net operating losses and tax credits can be carried forward, the existence of taxable temporary differences and near-term earnings expectations. The amount of the valuation allowance could decrease if facts and circumstances change that materially increase taxable income prior to the expiration of the loss carryforwards. Any reduction would reduce (increase) the income tax expense (benefit) in the period such determination is made by the Company.

The Company has adopted FASB issued guidance related to 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 the FASB 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 are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Additionally, companies are required to accrue interest and related penalties, if applicable, on all tax exposures for which reserves have been established consistent with jurisdictional tax laws. The Company has elected to recognize interest expense and penalties related to uncertain tax positions as a component of its provision for income taxes.

Stock-Based Compensation

Stock-based compensation expense for all stock-based compensation awards granted after July 1, 2006 is based on the grant-date fair value estimate in accordance with the provisions of the FASB issued guidance. The Company recognizes these compensation costs on a straight-line basis over the requisite service period of the award.

Valuations are based on highly subjective assumptions about the future, including stock price volatility and exercise patterns. The fair value of share-based payment awards was estimated using the Black-Scholes option pricing model. Expected volatilities are based on the historical volatility of the Company's stock. The Company uses historical data to estimate option exercise and employee terminations. 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 expected life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

Recently Issued Accounting Standards

In May 2014 FASB issued Accounting Standards Update 2014-09 Revenue from Contracts with Customers (Topic 606). Under the new provision, an entity should apply five steps for revenue recognition 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. For a public entity, the amendments in this Update are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. In August 2015 FASB issued accounting Standards Update No. 2015-13 Revenue from Contracts with Customers (Topic 606) deferral of the effective date. The amendments in this Update defer the effective date of Update 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in Update 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within the reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim

reporting periods within the reporting period. Management is evaluating the standard's impact on the consolidated financial statements.

In June 2014 FASB issued Accounting Standards Update 2014-11 Compensation-Stock Compensation (Topic 718) Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. For all entities, the amendments in this Update

are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The adoption of this standard did not have a material impact to the Company's consolidated financial statements.

In August 2014 FASB issued Accounting Standards Update 2014-15 Presentation of Financial Statements-Going Concern (Subtopic 205-40) Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The amendments require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. The amendments in this Update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. It was adopted during the year ended June 30, 2017. The adoption of this standard did not have a material impact to the Company's consolidated financial statements.

In April 2015, FASB issued Accounting Standards Update 2015-04 Compensation-Retirement Benefits (Topic 715) to provide practical expedient for the measurement date of an employer's defined benefit obligation and plan assets. The amendments in this Update are effective for public business entities for financial statements issued for fiscal year beginning after December 15, 2015, and interim periods within those fiscal year. For all other entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Earlier adoption is permitted. The adoption of this standard did not have a material impact to the Company's consolidated financial statements.

In April 2015, FASB issued Accounting Standards Update 2015-05 Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40) to provide guidance to customers about whether a cloud computing arrangement includes a software license. For public business entities, the amendments will be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. For all other entities, the amendments will be effective for annual periods beginning after December 15, 2015, and interim periods in annual periods beginning after December 15, 2016. Early adoption is permitted for all entities. The adoption of this standard did not have a material impact to the Company's consolidated financial statements.

In May 2015, FASB issued Accounting Standard Update 2015-08 Business Combinations (Topic 805) as amendments to various SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115. The adoption of this standard is not expected to have a material impact to the Company's consolidated financial statements.

In August 2015 FASB issued Accounting Standards Update No. 2015-15 Interest -Imputation of Interest (Subtopic 835-30). This update adds SEC paragraphs pursuant to the SEC Staff Announcement at the June 18, 2015 Emerging Issues Task Force (EIFF) meeting about the presentation of subsequent measurement of debt issuance costs associated with line-of-credit arrangements. Given the absence of authoritative guidance within Update 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The adoption of this standard is not expected to have a material impact to the Company's consolidated financial statements.

In November 2015 FASB issued Accounting Standards Update No. 2015-17 Income Taxes (Topic 740) Balance Sheet Classification of Deferred Taxes to reduce complexity in accounting standards. The amendments require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. For public business entities, the amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. The adoption of this standard is not expected to have a material impact to the Company's consolidated financial statements.

In February 2016 FASB issued Accounting Standards Update No. 2016-02 Leases (Topic 842) that changes the recognition of lease assets and lease liabilities by lessor for those leases classified as operating lease. The amendments in this Update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for a public business entity. Early adoption is permitted. Management is evaluating the standard's impact on the consolidated financial statements.

In March 2016 FASB issued Accounting Standards Update No. 2016-09 Compensation-Stock Compensation -(Topic 718) Improvements to employee share-based payments accounting as part of simplicity initiatives. This update involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities. For public business entities, the amendments in this Update are effective for annual periods

beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments are effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The adoption of this standard is not expected to have a material impact to the Company's consolidated financial statements.

In April 2016 FASB issued Accounting Standards Update No. 2016-10 Revenue from Contracts with Customers (Topic 606) Identifying Performance Obligations and Licensing. On May 2016 FASB issued Accounting Standards Update No. 2016-12 Revenue from Contracts with Customers (Topic 606) Narrow-Scope Improvements and Practical Expedients. The amendments in these two update do not change the the core principle of the guidance in Topic 606, which is that an entity should recognize 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, but they clarify the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance and the Update affect only the narrow aspects of Topic 606. An entity should apply five steps to achieve the core principle. The adoption of this standard is not expected to have a material impact to the Company's consolidated financial statements.

In May 2016 FASB issued Accounting Standards Update No. 2016-11 Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815). This Accounting Standards Update rescinds SEC paragraphs pursuant to two SEC Staff Announcements at the March 3, 2016 Emerging Issues Task Force (EITF) meeting. The adoption of this standard is not expected to have a material impact to the Company's consolidated financial statements.

In August 2016 FASB issued Accounting Standards Update No. 2016-15 Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments. The amendments in this Update provide guidance on the eight specific cash flow issues and apply to all entities, including both business entities and not-for-profit entities that are required to present a statement of cash flows under Topic 230. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The adoption of this standard is not expected to have a material impact to the Company's consolidated financial statements.

In January 2017 FASB issued Accounting Standards Update No. 2017-04 Intangibles—Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment. Under the amendments in this update an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The amendments in this Update are required for public business entities and other entities that have goodwill reported in their financial statements and have not elected the private company alternative for the subsequent measurement of goodwill. A public business entity that is a U.S. Securities and Exchange Commission (SEC) filer should adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. A public business entity that is not an SEC filer should adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2020. The adoption of this standard is not expected to have a material impact to the Company's consolidated financial statements.

In March 2017 FASB issued Accounting Standards Update No. 2017-07 Compensation—Retirement Benefits (Topic 715) primarily to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. The amendments in this Update require that an employer disaggregate the service cost component from the other components of net benefit cost. The amendments also provide explicit guidance on how to present the service cost component and the other components of net benefit cost in the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization. The amendments in this Update apply to all employers,

including not-for-profit entities, that offer to their employees defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under Topic 715. The amendments in this Update are effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those 3 annual periods. For other entities, the amendments in this Update are effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The amendments in this Update are effective for fiscal years beginning after December 15, 2018. Early adoption is permitted.

In May 2017 FASB issued the amendments in ASU 2017-09- Compensation-Stock Compensation (“ASC Topic 718”): Scope of Modification Accounting: These amendments provide guidance on determining which changes to the terms and conditions

of share-based payment awards require an entity to apply modification accounting under Topic 718. For public companies, these amendments are effective for annual periods beginning after December 15, 2017, including interim periods within those periods. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. The effectiveness of this update is not expected to have a significant effect on the Company's presentation of consolidated financial position or results of operations.

In July 2017 FASB issued the amendments in Accounting Standards Update ("ASU") 2017-11: Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815). For public companies, these amendments are effective for annual periods beginning after December 15, 2018, including interim periods within those periods. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. The effectiveness of this update is not expected to have a significant effect on the Company's presentation of consolidated financial position or results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Escalon Medical Corp.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Shareholders of Escalon Medical Corp.

We have audited the accompanying consolidated balance sheets of Escalon Medical Corp. and Subsidiaries (the "Company") as of June 30, 2017 and 2016, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Escalon Medical Corp. and Subsidiaries as of June 30, 2017 and 2016, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company's continued losses from operations and negative cash flows from operating activities raise substantial doubt about the Company's ability to continue as a going concern. Management's plans concerning these matters are also described in Note 1 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Mayer Hoffman McCann P.C.
Plymouth Meeting, Pennsylvania
September 28, 2017

ESCALON MEDICAL CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30, 2017	June 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$544,118	\$538,114
Accounts receivable, net	1,483,770	1,614,549
Inventory, net	1,917,938	2,107,148
Other current assets	209,546	281,330
Total current assets	4,155,372	4,541,141
Property and equipment, net	54,892	81,206
Goodwill	—	125,027
Trademarks and trade names	605,006	605,006
Patents, net	400	2,000
License, net	168,500	176,000
Total assets	\$4,984,170	\$5,530,380
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Line of credit	\$250,000	\$—
Current portion of post-retirement benefits	101,891	101,891
Accounts payable	1,047,463	1,091,923
Accrued expenses	965,764	1,226,842
Related party note payable	545,000	275,000
Liabilities of discontinued operations	91,125	88,660
Total current liabilities	3,001,243	2,784,316
Accrued post-retirement benefits, net of current portion	799,347	835,589
Total long-term liabilities	799,347	835,589
Total liabilities	3,800,590	3,619,905
Shareholders' equity:		
Common stock, \$0.001 par value; 35,000,000 shares authorized; 7,551,430 shares issued and outstanding	7,551	7,551
Additional paid-in capital	69,701,907	69,701,907
Accumulated deficit	(68,525,878)	(67,798,983)
Total shareholders' equity	1,183,580	1,910,475
Total liabilities and shareholders' equity	\$4,984,170	\$5,530,380
See notes to consolidated financial statements		

ESCALON MEDICAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended June 30,	2017	2016
Net revenues:		
Product revenue	\$11,234,868	\$11,576,466
Revenues, net	11,234,868	11,576,466
Costs and expenses:		
Cost of goods sold	6,080,017	6,197,739
Marketing, general and administrative	4,603,285	5,068,950
Research and development	1,053,432	1,450,069
Goodwill impairment	125,027	—
Total costs and expenses	11,861,761	12,716,758
Loss from operations	(626,893)	(1,140,292)
Other (expense) income		
Interest income	327	179
Interest expense	(100,329)	(11,400)
Total other (expense) income	(100,002)	(11,221)
Net (loss)	\$(726,895)	\$(1,151,513)
Net (loss) per share		
Basic and Diluted		
Net (loss)	\$(0.10)	\$(0.15)
Weighted average shares—basic	7,551,430	7,541,013
Weighted average shares—diluted	7,551,430	7,541,013
See notes to consolidated financial statements		

ESCALON MEDICAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED JUNE 30, 2017 and 2016

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount			
Balance at June 30, 2015	7,526,430	\$ 7,526	\$69,629,889	\$(66,647,470)	\$ 2,989,945
Net loss	—	—	—	(1,151,513)	(1,151,513)
Shares issued	25,000	25	19,725	—	19,750
Compensation expense	—	—	52,293	—	52,293
Balance at June 30, 2016	7,551,430	7,551	69,701,907	(67,798,983)	1,910,475
Net loss	—	—	—	(726,895)	(726,895)
Balance at June 30, 2017	7,551,430	\$ 7,551	\$69,701,907	\$(68,525,878)	\$ 1,183,580

See notes to consolidated financial statements

ESCALON MEDICAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30,	2017	2016
Cash Flows from Operating Activities:		
Net (loss)	\$(726,895)	\$(1,151,513)
Adjustments to reconcile net (loss) to cash used in operating activities:		
Depreciation and amortization	45,914	24,651
Goodwill impairment	125,027	—
Compensation expense related to stock options	—	52,293
Stock compensation	—	19,750
Increase in liabilities of discontinued operations	2,465	2,484
Change in operating assets and liabilities:		
Accounts receivable, net	130,779	171,379
Inventory, net	189,210	112,467
Other current assets	69,284	(35,810)
Accounts payable and accrued expenses	(305,538)	(254,862)
Change in accrued post-retirement benefits	(36,242)	38,158
Net cash (used in) operating activities	(505,996)	(1,021,003)
Cash Flows from Investing Activities:		
Purchase of fixed assets	—	(56,644)
Purchase of licenses	(8,000)	(176,000)
Net cash (used in) investing activities	(8,000)	(232,644)
Cash Flows from Financing Activities:		
Proceeds from related party note payable	270,000	275,000
Proceeds from line of credit	250,000	—
Net cash provided by financing activities	520,000	275,000
Net increase (decrease) in cash and cash equivalents	6,004	(978,647)
Cash and cash equivalents, beginning of year	538,114	1,516,761
Cash and cash equivalents, end of year	\$544,118	\$538,114
Supplemental Schedule of Cash Flow Information:		
Interest paid	\$54,802	\$—
See notes to consolidated financial statements		

Escalon Medical Corp. and Subsidiaries
Notes to Consolidated Financial Statements

1. Going Concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Escalon Medical Corp. (“Escalon” or the “Company”) has incurred recurring operating losses and negative cash flows from operating activities.

These conditions raise substantial doubt about the Company’s ability to continue as a going concern. The 2017 consolidated financial statements do not include any adjustments relating to the realization of the carrying value of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company's continuance as a going concern is dependent on its future profitability and on the on-going support of its shareholders, affiliates and creditors. In order to mitigate the going concern issues, the Company is actively pursuing business partnerships, managing its continuing operations, implementing cost-cutting measures and seeking to sell certain assets. The Company may not be successful in any of these efforts.

The Company’s forecast of the period of time through which its financial resources will be adequate to support its operations is a forward-looking statement and involves risks and uncertainties, and actual results could vary as a result of a number of factors, including the factors discussed in “Risk Factors”. If the Company raises funds in the future, the Company may be required to raise those funds through public or private financings, strategic relationships or other arrangements at prices and other terms that may not be as favorable as they would without such qualification. The sale of additional equity and debt securities may result in additional dilution to the Company’s shareholders. Additional financing may not be available in amounts or on terms acceptable to the Company or at all.

2. Organization and Description of Business

The Company is a Pennsylvania corporation initially incorporated in California in 1987, and reincorporated in Pennsylvania in November 2001. Within this document, the “Company” collectively shall mean Escalon and its wholly owned subsidiaries: Sonomed, Inc. (“Sonomed”), Trek, Inc. (“Trek”), Escalon Medical Europe GmbH (inactive), Escalon Digital Solutions, Inc. (“EMI”), Escalon Pharmaceutical, Inc. (“Pharmaceutical” inactive), Escalon Holdings, Inc. (“EHI”), Escalon IP Holdings, Inc., Sonomed IP Holdings, Inc., Drew Scientific Holdings, Inc. (discontinued), Drew Scientific Inc. (discontinued), and Drew Scientific Group, Plc (“Drew”) and its subsidiaries (discontinued). All intercompany accounts and transactions have been eliminated.

The Company operates in the healthcare market, specializing in the development, manufacture, marketing and distribution of medical devices and pharmaceuticals in the area of ophthalmology. The Company and its products are subject to regulation and inspection by the United States Food and Drug Administration (the “FDA”). The FDA requires extensive testing of new products prior to sale and has jurisdiction over the safety, efficacy and manufacture of products, as well as product labeling and marketing.

Reclassification

Certain items in the June 30, 2016 consolidated balance sheet have been reclassified to conform to the current period presentation.

3. Significant Accounting Policies
Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that impact the reported amounts of assets and liabilities

and disclosures of contingent assets and liabilities at the date of the 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

For the purposes of reporting cash flows, the Company considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and highly liquid investments with original maturities of 90 days or less to be cash and cash equivalents. From time to time cash balances exceed federal insurance limits.

Fair Value of Financial Instruments

On July 1, 2008, the Company adopted Financial Accounting Standards Board (“FASB”) issued authoritative guidance related to fair value measurement for financial assets and liabilities. The carrying amounts for cash and cash equivalents, accounts receivable, post-retirement benefits, accounts payable and accrued liabilities approximate their fair value because of their short-term maturity. The carrying amounts of long-term post retirement benefits approximate fair value since the Company utilizes approximate current market interest rates to calculate the liability. While we believe the carrying value of the assets and liabilities is reasonable, considerable judgment is used to develop estimates of fair value; thus the estimates are not necessarily indicative of the amounts that could be realized in a current market exchange.

Revenue Recognition

The Company recognizes revenue from the sale of its products at the time of shipment, when title and risk of loss transfer. The Company provides products to its distributors at agreed wholesale prices and to the balance of its customers at set retail prices. Distributors can receive discounts for accepting high volume shipments. The discounts are reflected immediately in the net invoice price, which is the basis for revenue recognition. No further material discounts or sales incentives are given.

The Company’s considerations for recognizing revenue upon shipment of product to a distributor are based on the following:

- Persuasive evidence that an arrangement (purchase order and sales invoice) exists between a willing buyer (distributor) and the Company that outlines the terms of the sale (company information, quantity of goods, purchase price and payment terms). The buyer (distributor) does not have a right of return.
 - Shipping terms are ex-factory shipping point. At this point the buyer (distributor) takes title to the goods and is responsible for all risks and rewards of ownership, including insuring the goods as necessary.
 - The Company’s price to the buyer (distributor) is fixed and determinable as specifically outlined on the sales invoice.
 - The sales arrangement does not have customer cancellation or termination clauses.
 - The buyer (distributor) places a purchase order with the Company; the terms of the sale are cash, COD or credit.
 - Customer credit is determined based on the Company’s policy and procedures related to the buyer’s (distributor’s) creditworthiness. Based on this determination, the Company believes that collectibility is reasonably assured.
- Provision has been made for estimated sales returns based on historical experience.

Shipping and Handling Revenues and Costs

Shipping and handling revenues are included in product revenue and the related costs are included in cost of goods sold.

Inventory

Raw materials, work in process and finished goods are recorded at lower of cost (first-in, first-out) or market. The composition of inventory is as follows:

	June 30,	
	2017	2016
Raw materials	\$864,813	\$917,526
Work in process	336,934	362,766
Finished goods	716,191	826,856
Total inventory	\$1,917,938	\$2,107,148

Valuation allowance activity for the years ended June 30, 2017 and 2016 was as follows:

	June 30,	
	2017	2016
Balance, July 1	\$198,120	\$198,120
Provision for valuation allowance	150,000	—
Write-off	(1,106)	—
Balance, June 30	\$347,014	\$198,120

Accounts Receivable

Accounts receivable are recorded at net realizable value. The Company performs ongoing credit evaluations of customers' financial condition and does not require collateral for accounts receivable arising in the normal course of business. The Company maintains allowances for potential credit losses based on the Company's historical trends, specific customer issues and current economic trends. Accounts are written off when they are determined to be uncollectible based on management's assessment of individual accounts. Allowance for doubtful accounts activity for the years ended June 30, 2017 and 2016 was as follows:

	June 30,	
	2017	2016
Balance, July 1	\$202,667	\$230,544
Provision for bad debts	—	3,914
Write-offs	(30,547)	(31,791)
Balance, June 30	\$172,120	\$202,667

As of June 30, 2017 the Company has one customer that represents approximately 12% of the total accounts receivable balance. As of June 30, 2016, the Company has one customer that represents approximately 11% of the total accounts receivable balance.

Property and Equipment

Property and equipment are recorded at cost. Leasehold improvements are amortized on a straight-line basis over the lesser of the estimated useful life of the asset or lease term. Depreciation on property and equipment is recorded using the straight-line method over the estimated economic useful life of the related assets. Estimated useful lives are generally 3 to 5 years for computer equipment and software, 5 to 7 years for furniture and fixtures and 5 to 10 years for production and test equipment. Depreciation and amortization expense for the years ended June 30, 2017 and 2016 was approximately \$26,000 and \$22,000, respectively.

Property and equipment consist of the following at:

	June 30,	
	2017	2016
Equipment	\$695,311	\$695,311
Furniture and Fixtures	99,321	99,321
Leasehold Improvement	28,549	28,549
	823,181	823,181
Less: Accumulated depreciation and amortization	(768,289)	(741,975)
	\$54,892	\$81,206

Long-lived Assets

Long-lived assets and certain identifiable intangibles to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An asset's value is impaired if management's estimate of the aggregate future cash flows, undiscounted and without interest charges, to be generated by the asset are less than the carrying value of the asset. Such cash flows consider factors such as expected future operating income and historical trends, as well as the effects of demand and competition. To the extent impairment has occurred, the loss will be measured as the

excess of the carrying amount of the asset over the fair value of the asset. Such estimates require the use of judgment and numerous subjective assumptions which, if actual experience varies, could result in material differences in the requirements for impairment charges.

Intangible Assets

The Company follows FASB issued authoritative guidance for recording goodwill and other intangible assets, which discontinues the amortization of goodwill and identifiable intangible assets that have indefinite lives. In accordance with FASB issued authoritative guidance, these goodwill and identifiable intangible assets that have indefinite lives are tested for impairment on an annual basis.

Accrued Warranties

The Company provides a limited one year warranty against manufacturer's defects on its products sold to customers. The Company's standard warranties require the Company to repair or replace, at the Company's discretion, defective parts during such warranty period. The Company accrues for its product warranty liabilities based on estimates of costs to be incurred during the warranty period, based on historical repair information for warranty costs.

Business Combinations

The Company allocates the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. When acquisitions are deemed material by management, the Company engages independent third-party appraisal firms to assist in determining the fair values of assets acquired and liabilities assumed. Such a valuation requires management to make significant estimates and assumptions, especially with respect to intangible assets.

Stock-Based Compensation

Stock-based compensation expense for all share-based payment awards granted after July 1, 2006 is based on the grant date fair value estimate in accordance with the provisions of FASB issued authoritative guidance. As of June 30, 2017 and 2016 there was no unrecognized compensation cost related to non-vested share-based compensation arrangements granted to employees under the plans. There is no remaining cost under the plan. For the years ended June 30, 2017 and 2016, \$0 and \$39,613, respectively, was recorded as compensation expense.

Valuations are based upon highly subjective assumptions about the future, including stock price volatility and exercise patterns. The fair value of share-based payment awards was estimated using the Black-Scholes option pricing model. Expected volatilities are based on the historical volatility of the Company's stock. The Company uses historical data to estimate option exercise and employee terminations. 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 expected life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The Company has historically granted options under the Company's option plans with an option exercise price equal to the closing market value of the stock on the date of the grant and with vesting, primarily for Company employees, either in equal annual amounts over a two to five year period or immediately, and, primarily for non-employee directors, immediately.

The Company did not receive any cash from share option exercises under stock-based payment plans for the years ended June 30, 2017 and 2016. The Company did not realize any tax effect, which would be a reduction in its tax rate, on options due to the full valuation allowances established on its deferred tax assets.

The Company measures compensation expense for non-employee stock-based awards based on the fair value of the options issued, as this measurement is used to measure the transaction, and is more reliable than the fair value of the services received. Fair value is measured as the value of the Company's common stock on the date that the commitment for performance by the counterparty has been reached or the counterparty's performance is complete. The fair value of the equity instrument is charged directly to compensation expense and additional paid-in capital. For the years ended June 30, 2017 and 2016, non-employee compensation expense was \$0 and \$12,680, respectively.

The Company did not issue any shares during year ended June 30, 2017.

Research and Development

All research and development costs are charged to operations as incurred.

Advertising Costs

Advertising costs are charged to operations as incurred. Advertising expense for the years ended June 30, 2017 and 2016 was \$31,000 and \$33,000, respectively.

Net Income (loss) Per Share

Earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the year. All outstanding stock options are considered potential common stock. The dilutive effect, if any, of stock options is calculated using the treasury stock method.

A reconciliation of the denominator of the basic and diluted earnings per share for the years ended June 30, 2017 and 2016 is as follows:

	2017	2016
Basic Weighted average shares outstanding	7,551,430	7,541,013
Effect of dilutive securities—Stock options and warrants—	—	—
Diluted weighted average shares outstanding	7,551,430	7,541,013

For the years ended June 30, 2017 and 2016, no potential shares of common stock were included in the calculations since the effect would be anti-dilutive due to the operating loss. As of June 30, 2017 and 2016, the outstanding options of 502,000 and 616,500, respectively, were excluded from the calculation of diluted earnings per share as the exercise price of the options exceeded the average share price of the Company's common stock making the options anti-dilutive.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

The Company follows the FASB issued authoritative guidance for accounting for 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 FASB Accounting Standards Codification ("ASC") 740-10, 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 are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement.

Additionally, companies are required to accrue interest and related penalties, if applicable, on all tax exposures for which reserves have been established consistent with jurisdictional tax laws. The Company has elected to recognize interest expense and penalties related to uncertain tax positions as a component of its provision for income taxes, if necessary.

New Accounting Pronouncements

Recently Issued Accounting Standards

In May 2014 FASB issued Accounting Standards Update 2014-09 Revenue from Contracts with Customers (Topic 606). Under the new provision, an entity should apply five steps for revenue recognition 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. For a public entity, the amendments in this Update are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. In August 2015 FASB issued accounting Standards Update No. 2015-13 Revenue from Contracts with Customers (Topic 606) deferral of the effective date. The amendments in this Update defer the effective date of Update 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities,

and certain employee benefit plans should apply the guidance in Update 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within the reporting period. Earlier application is permitted only as of annual reporting periods beginning after

December 15, 2016, including interim reporting periods within the reporting period. Management is evaluating the standard's impact on the consolidated financial statements.

In June 2014 FASB issued Accounting Standards Update 2014-11 Compensation-Stock Compensation (Topic 718) Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. For all entities, the amendments in this Update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The adoption of this standard did not have a material impact to the Company's consolidated financial statements.

In August 2014 FASB issued Accounting Standards Update 2014-15 Presentation of Financial Statements-Going Concern (Subtopic 205-40) Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The amendments require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. The amendments in this Update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. It was adopted during the year ended June 30, 2017. The adoption of this standard did not have a material impact to the Company's consolidated financial statements.

In April 2015, FASB issued Accounting Standards Update 2015-04 Compensation-Retirement Benefits (Topic 715) to provide practical expedient for the measurement date of an employer's defined benefit obligation and plan assets. The amendments in this Update are effective for public business entities for financial statements issued for fiscal year beginning after December 15, 2015, and interim periods within those fiscal year. For all other entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Earlier adoption is permitted. The adoption of this standard did not have a material impact to the Company's consolidated financial statements.

In April 2015, FASB issued Accounting Standards Update 2015-05 Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40) to provide guidance to customers about whether a cloud computing arrangement includes a software license. For public business entities, the amendments will be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. For all other entities, the amendments will be effective for annual periods beginning after December 15, 2015, and interim periods in annual periods beginning after December 15, 2016. Early adoption is permitted for all entities. The adoption of this standard did not have a material impact to the Company's consolidated financial statements.

In May 2015, FASB issued Accounting Standard Update 2015-08 Business Combinations (Topic 805) as amendments to various SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115. The adoption of this standard is not expected to have a material impact to the Company's consolidated financial statements.

In August 2015 FASB issued Accounting Standards Update No. 2015-15 Interest -Imputation of Interest (Subtopic 835-30). This update adds SEC paragraphs pursuant to the SEC Staff Announcement at the June 18, 2015 Emerging Issues Task Force (EIFF) meeting about the presentation of subsequent measurement of debt issuance costs associated with line-of-credit arrangements. Given the absence of authoritative guidance within Update 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The adoption of this standard is not expected to have a material impact to the Company's consolidated financial statements.

In November 2015 FASB issued Accounting Standards Update No. 2015-17 Income Taxes (Topic 740) Balance Sheet Classification of Deferred Taxes to reduce complexity in accounting standards. The amendments require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. For public business entities, the amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. The adoption of this standard is not expected to have a material impact to the Company's consolidated financial statements.

In February 2016 FASB issued Accounting Standards Update No. 2016-02 Leases (Topic 842) that changes the recognition of lease assets and lease liabilities by lessor for those leases classified as operating lease. The amendments in this Update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for a public business entity. Early adoption is permitted. Management is evaluating the standard's impact on the consolidated financial statements.

In March 2016 FASB issued Accounting Standards Update No. 2016-09 Compensation-Stock Compensation -(Topic 718) Improvements to employee share-based payments accounting as part of simplicity initiatives. This update involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities. For public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments are effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The adoption of this standard is not expected to have a material impact to the Company’s consolidated financial statements.

In April 2016 FASB issued Accounting Standards Update No. 2016-10 Revenue from Contracts with Customers (Topic 606) Identifying Performance Obligations and Licensing. On May 2016 FASB issued Accounting Standards Update No. 2016-12 Revenue from Contracts with Customers (Topic 606) Narrow-Scope Improvements and Practical Expedients. The amendments in these two update do not change the the core principle of the guidance in Topic 606, which is that an entity should recognize 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, but they clarify the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance and the Update affect only the narrow aspects of Topic 606. An entity should apply five steps to achieve the core principle. The adoption of this standard is not expected to have a material impact to the Company’s consolidated financial statements.

In May 2016 FASB issued Accounting Standards Update No. 2016-11 Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815). This Accounting Standards Update rescinds SEC paragraphs pursuant to two SEC Staff Announcements at the March 3, 2016 Emerging Issues Task Force (EITF) meeting. The adoption of this standard is not expected to have a material impact to the Company’s consolidated financial statements.

In August 2016 FASB issued Accounting Standards Update No. 2016-15 Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments. The amendments in this Update provide guidance on the eight specific cash flow issues and apply to all entities, including both business entities and not-for-profit entities that are required to present a statement of cash flows under Topic 230. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The adoption of this standard is not expected to have a material impact to the Company’s consolidated financial statements.

In January 2017 FASB issued Accounting Standards Update No. 2017-04 Intangibles—Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment. Under the amendments in this update an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The amendments in this Update are required for public business entities and other entities that have goodwill reported in their financial statements and have not elected the private company alternative for the subsequent measurement of goodwill. A public business entity that is a U.S. Securities and Exchange Commission (SEC) filer should adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. A public business entity that is not an SEC filer should adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2020. The adoption of this standard is not expected to have a material impact to the Company’s consolidated financial statements.

In March 2017 FASB issued Accounting Standards Update No. 2017-07 Compensation—Retirement Benefits (Topic 715) primarily to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. The amendments in this Update require that an employer disaggregate the service cost component from the other components of net benefit cost. The amendments also provide explicit guidance on how to present the service cost component and the other components of net benefit cost in the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization. The amendments in this Update apply to all employers, including not-for-profit entities, that offer to their employees defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under Topic 715. The amendments in this Update are effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those 3 annual periods. For other entities, the amendments in this Update

are effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The amendments in this Update are effective for fiscal years beginning after December 15, 2018. Early adoption is permitted.

In May 2017 FASB issued the amendments in ASU 2017-09- Compensation-Stock Compensation (“ASC Topic 718”): Scope of Modification Accounting: These amendments provide guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. For public companies, these amendments are effective for annual periods beginning after December 15, 2017, including interim periods within those periods. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. The effectiveness of this update is not expected to have a significant effect on the Company’s presentation of consolidated financial position or results of operations.

In July 2017 FASB issued the amendments in Accounting Standards Update (“ASU”) 2017-11: Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815). For public companies, these amendments are effective for annual periods beginning after December 15, 2018, including interim periods within those periods. While early application is permitted, including adoption in an interim period, the Company has not elected to early adopt. The effectiveness of this update is not expected to have a significant effect on the Company’s presentation of consolidated financial position or results of operations.

4. Intangible Assets

Goodwill, Trademarks and Trade Names

Goodwill, trademarks and trade names represent intangible assets obtained from EOI, Endologix and Sonomed acquisitions. Goodwill represents the excess of purchase price over the fair value of net assets acquired.

The Company adopted FASB authoritative guidance effective July 1, 2001 for goodwill and identified intangible assets that have indefinite lives. These assets are no longer amortized but reviewed for impairment annually or more frequently if certain indicators arise.

In accordance with authoritative guidance effective July 1, 2001, the Company discontinued the amortization of goodwill and identifiable intangible assets that have indefinite lives. Intangible assets that have finite lives continue to be amortized over their estimated useful lives. Management has evaluated the carrying value of goodwill and its identifiable intangible assets that have indefinite lives during each of the fiscal years subsequent to July 1, 2001, utilizing discounted cash flows of the respective business units. In accordance with ASC 350-20, these intangible assets will continue to be assessed on an annual basis, and impairment, if any, would be recorded as a charge against income from operations.

The authoritative guidance makes use of the concept of reporting units. All acquisitions must be assigned to a reporting segment or unit. Reporting units have been defined under the standards to be the same as or one level below an operating segment, as defined by FASB issued authoritative guidance related to disclosures about segments of an enterprise and related information.

The Company tests goodwill for possible impairment on an annual basis at June 30, and at any other time events occur or circumstances indicate that the carrying amount of goodwill may be impaired. As a result of the Company's testing during the year ended June 30, 2017, the goodwill carrying amount of \$125,027 was deemed impaired and written off. During the year ended June 30, 2016, no impairments were recorded.

The following tables present unamortized intangible assets as of June 30, 2017 and 2016:

	2017 Net	2016 Net
	Carrying	Carrying
	Amount	Amount
Goodwill		
Sonomed-Escalon	\$	—\$125,027
Total	\$	—\$125,027

	2017 Net Carrying Amount	2016 Net Carrying Amount
Trademarks and trade names		
Sonomed-Escalon	\$605,006	\$605,006
Total	\$605,006	\$605,006

Patents

It is the Company's practice to seek patent protection on processes and products in various countries. Patent application costs are capitalized and amortized over their estimated useful lives, not exceeding 17 years, on a straight-line basis from the date the related patents are issued. Costs associated with patents no longer being pursued are expensed. Accumulated amortization on patents from continuing operations was approximately \$91,000 and \$89,000 at June 30, 2017 and 2016, respectively. Amortization expense for the years ended June 30, 2017 and 2016 was approximately \$2,000 and \$1,000, respectively.

Amortization expense, relating entirely to patents, is estimated to be approximately \$1,000 related to patents in 2018. The following table presents amortized intangible assets as of June 30, 2017:

	Gross Carrying Amount	Impairment	Adjusted Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Amortized Intangible Assets Patents					
Sonomed-Escalon	\$90,962	\$	—\$90,962	\$ (90,562)	\$ 400
Total	\$90,962	\$	—\$90,962	\$ (90,562)	\$ 400

The following table presents amortized intangible assets as of June 30, 2016:

	Gross Carrying Amount	Impairment	Adjusted Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Amortized Intangible Assets Patents					
Sonomed-Escalon	\$90,962	\$	—\$90,962	\$ (88,962)	\$ 2,000
Total	\$90,962	\$	—\$90,962	\$ (88,962)	\$ 2,000

Licenses

The Company purchased new licenses of \$8,000 and \$176,000 for year end June 30, 2017 and 2016, respectively and the cost is capitalized and amortized over 10 years. Amortization expense is \$18,000 for the year ended June 30, 2017. No amortization occurred during year ended June 30, 2016.

Annual amortization related entirely to licenses is estimated to be approximately \$18,000 for the year ending June 30, 2018, 2019, 2020, 2021 and 2022.

The following table presents amortized licenses as of June 30, 2017:

	Gross Carrying Amount	Impairment	Adjusted Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Amortized Intangible Assets Licenses					
Sonomed-Escalon	\$186,500	\$	—\$186,500	\$ (18,000)	\$ 168,500
Total	\$186,500	\$	—\$186,500	\$ (18,000)	\$ 168,500

The following table presents amortized licenses as of June 30, 2016:

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	Gross Carrying Amount	Impairment	Adjusted Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Amortized Intangible Assets Licenses					
Sonomed-Escalon	\$ 176,000	\$	—\$ 176,000	\$	—\$ 176,000
Total	\$ 176,000	\$	—\$ 176,000	\$	—\$ 176,000

5. Accrued Expenses

The following table presents accrued expenses:

	June 30, 2017	June 30, 2016
Accrued compensation	\$ 375,451	\$ 426,600
Interest accrual	56,887	—
Deferred revenue	388,435	334,791
Other accruals	144,991	465,451
Total accrued expenses	\$ 965,764	\$ 1,226,842

Accrued compensation as of June 30, 2017 and 2016 primarily relates to payroll, vacation accruals, and payroll tax liabilities. Other accruals as of June 30, 2017 and 2016 includes warranties and customer deposits.

6. Capital Stock Transactions

Stock Option Plans

As of June 30, 2017, the Company had in effect 2 employee stock option plans that provide for incentive and non-qualified stock options. After accounting for shares issued upon exercise of options, a total of 995,846 shares of the Company's common stock remain available for issuance as of June 30, 2017. Under the terms of the plans, options may not be granted for less than the fair market value of the Common Stock at the date of grant. Vesting generally occurs ratably between one and five years and for non-employee directors, immediately and the options are exercisable over a period no longer than 10 years after the grant date. As of June 30, 2017, options to purchase 502,000 shares of the Company's common stock were outstanding, of which 502,000 were exercisable, and 0 shares were unvested.

The following is a summary of Escalon's stock option activity and related information for the fiscal years ended June 30, 2017 and 2016:

	2017		2016	
	Common Stock Options	Weighted Average Exercise Price	Common Stock Options	Weighted Average Exercise Price
Outstanding at the beginning of the year	616,500	\$ 2.27	813,942	\$ 3.36
Granted	—	—	21,000	0.79
Exercised	—	—	—	—
Forfeited	(114,500)	2.65	(218,442)	\$ 6.58
Outstanding at the end of the year	502,000	\$ 2.12	616,500	\$ 2.27
Exercisable at the end of the year	502,000		616,500	—
Weighted average fair value of options granted during the year		\$ —		\$ 0.60

The following table summarizes information about stock options outstanding as of June 30, 2017:

	Number Outstanding at June 30, 2017	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at June 30, 2016	Weighted Average Exercise Price
Range of Exercise Prices					
\$0.79	21,000	8.83	\$ 0.79	21,000	\$ 0.79
\$1.45 to \$2.12	192,000	5.54	\$ 1.55	192,000	\$ 1.55
\$2.21 to \$3.05	289,000	0.95	\$ 2.60	403,500	\$ 2.61
Total	502,000			616,500	

Compensation expense related to stock options for the years ended June 30, 2017 and 2016 was \$0 and \$52,293, respectively.

7. Income Taxes

The provision for income taxes for the years ended June 30, 2017 and 2016 consists of the following:

	2017	2016
Current income tax (benefit) provision		
Federal	\$ —	\$ —
State	—	—
	—	—
Deferred income tax provision		
Federal	125,468	241,250
State	22,142	42,575
Change in valuation allowance	(147,610)	(283,825)
	—	—
Income tax (benefit)	\$ —	\$ —

Income taxes (benefit) as a percentage of income (loss) for the years ended June 30, 2017 and 2016 differ from statutory federal income tax rate due to the following:

	2017	2016
Statutory federal income tax rate	34.00 %	34.00 %
Increase in deductible timing differences	11.00 %	7.00 %
Net operating loss carryforward	(45.00)%	(41.00)%
Effective income tax rate	0.00 %	0.00 %

As of June 30, 2017, the Company had deferred income tax assets of \$12,153,000. The deferred income tax assets have a valuation allowance of \$12,061,000. The valuation allowance is based on uncertainty with respect to the ultimate realization of net operating loss carryforwards.

The components of the net deferred income tax assets and liabilities as of June 30, 2017 and 2016 are as follows:

	2017	2016
Deferred income tax assets:		
Net operating loss carryforward	\$ 11,323,998	\$ 11,222,477
Executive post retirement costs	306,421	318,743
General business credit	207,698	207,698
Allowance for doubtful accounts	58,521	68,910
Accrued vacation	89,477	105,816
Inventory reserve	117,985	67,361
Accelerated depreciation	38,492	16,340
Warranty reserve	10,907	10,907
Total deferred income tax assets	12,153,499	12,018,252
Valuation allowance	(12,060,831)	(11,913,221)
	92,668	105,031
Deferred income tax liabilities:		
Accelerated depreciation	(92,668)	(105,031)
Total deferred income tax liabilities	(92,668)	(105,031)
	\$—	\$—

As of June 30, 2017, the Company has a valuation allowance of \$12,060,831, which primarily relates to the federal net operating loss carryforwards. The valuation allowance is a result of management evaluating its estimates of the net operating losses available to the Company as they relate to the results of operations of acquired businesses subsequent to their being acquired by the Company. The Company evaluates a variety of factors in determining the amount of the valuation allowance, including the Company's earnings history, the number of years the Company's operating loss and tax credits can be carried forward, the existence of taxable temporary differences, and near-term earnings expectations. Future reversal of the valuation allowance will be recognized either when the benefit is realized or when it has been determined that it is more likely than not that the benefit will be realized through future earnings. Any tax benefits related to stock options that may be recognized in the future through reduction of the associated valuation allowance will be recorded as additional paid-in capital. The Company has available federal and state net operating loss carry forwards of approximately \$32,370,000 and \$3,320,000, respectively, of which \$4,619,000 and \$1,447,000, respectively, will expire over the next 10 years, and \$27,751,000 and \$1,873,000, respectively, will expire in years 11 through twenty.

The Company continues to monitor the realization of its deferred tax assets based on changes in circumstances, for example, recurring periods of income for tax purposes following historical periods of cumulative losses or changes in tax laws or regulations. The Company's income tax provision and management's assessment of the realizability of the Company's deferred tax assets involve significant judgments and estimates. If taxable income expectations change, in the near term the Company may be required to reduce the valuation allowance which would result in a material benefit to the Company's results of operations in the period in which the benefit is determined by the Company.

Effective July 1, 2007, the Company adopted the FASB authoritative guidance which prescribes a model for the recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest, penalties, disclosure and transition. Implementation of the FASB authoritative guidance did not result in a cumulative effect adjustment to retained earnings. With few exceptions, the Company is no longer subject to

audits by tax authorities for tax years prior to 2011. However, to the extent allowed by law, the tax authorities may have the right to examine prior periods where net operating losses were generated and carried forward, and make adjustments up to the amount of the net operating loss amount. At June 30, 2017, the Company did not have any significant unrecognized tax positions. The Company has provided what it believes to be an appropriate amount of tax for items that involve interpretation to the tax law. However, events may occur in the future that will cause the Company to reevaluate the current provision and may result in an adjustment to the liability for taxes.

The Company has provided what it believes to be an appropriate amount of tax for items that involve interpretation to the tax law. However, events may occur in the future that will cause the Company to reevaluate the current provision

and may result in an adjustment to the liability for taxes.

8. Commitments and Contingencies

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Commitments

The Company leases its manufacturing, research and corporate office facilities and certain equipment under non-cancelable operating lease arrangements. The future annual amounts to be paid under these arrangements as of June 30, 2017 are as follows:

Year Ending June 30,	Lease Obligations
2018	\$378,940
2019	305,354
2020	259,973
2021	169,427
2022	159,790
Thereafter	399,475
Total	\$1,672,959

Rent expense charged to continuing operations during the years ended June 30, 2017 and 2016 was approximately \$570,000 and \$572,000, respectively.

The Company guaranteed the lease payment for BHH and during fiscal year 2015 the Company was informed by French Counsel that the total amount claimed by the BHH landlord in the liquidation of BHH was approximately \$86,000. The Company did not have insight into the French liquidation process due to the Liquidator's reticence to communicate with the Company. As such, the Company had accrued the present value of the maximum amount potentially due under the lease guaranteed by the Company on behalf of BHH. The landlord's claim under liquidation can not be revisited by the landlord and can only be potentially increased by interest or sundry expenses. The Company has accrued lease termination costs of \$91,000 and \$89,000 as of June 30, 2017 and 2016, respectively.

Legal Proceedings

The Company, from time to time is involved in various legal proceedings and disputes that arise in the normal course of business. These matters have included intellectual property disputes, contract disputes, employment disputes and other matters. The Company does not believe that the resolution of any of these matters has had or is likely to have a material adverse impact on the Company's business, financial condition or results of operations.

9. Retirement and Post-Retirement Plans

The Company adopted a 401(k) retirement plan effective January 1, 1994. The Company's employees become eligible for the plan commencing on the date of employment. Company contributions are discretionary, and no Company contributions have been made since the plan's inception.

On January 14, 2000, the Company acquired Sonomed. Sonomed adopted a 401(k) retirement plan effective on January 1, 1993. This plan has continued subsequent to the acquisition and is available only to Sonomed employees. There were no discretionary contributions for the fiscal years ended June 30, 2017 and 2016.

On June 23, 2005, the Company entered into a Supplemental Executive Retirement Benefit Agreement with its Chairman. The agreement provides for the payment of supplemental retirement benefits to the covered executive in the event of the covered executive's termination of services with the Company under the following circumstances:

If the covered executive retires, the Company would be obligated to pay the executive \$8,491 per month for life, with payments commencing the month after retirement. If the covered executive were to die within a period of three years after such retirement, the Company would be obligated to continue making such payments until a minimum of 36 months payments have been made to the covered executive and his beneficiaries in the aggregate.

If the covered executive dies before his retirement while employed by the Company, the Company would be obligated to make 36 months payments to his beneficiaries of \$8,491 per month commencing in the month after his death.

If the covered executive were to become disabled while employed by the Company, the Company would be obligated to pay the executive \$8,000 per month for life, with payments commencing the month after he suffers such disability.

If the covered executive were to die within three years after suffering such disability, the Company would be obligated

to continue making such payments until a minimum of 36 months payments have been made to the covered executive and his beneficiaries in the aggregate.

If the covered executive's employment with the Company is terminated by the Company, or if the executive terminates his employment with the Company for good reason, as defined in the agreement, the Company would be obligated to pay the executive \$8,491 per month for life. If the covered executive were to die within a period of three years after such termination, the Company would be obligated to continue making such payments until a minimum of 36 months payments have been made to the covered executive and his beneficiaries in the aggregate.

As of June 30, 2017 and 2016 approximately \$901,000 and \$937,000 was accrued for retirement benefits, respectively. These amounts represent the approximate present value of the supplemental retirement benefits awarded using 3.9% discount rate. The Company began making monthly payments under this agreement on January 1, 2013. The changes related to post-retirement plans for the years ended June 30, 2017 and 2016 were as follows:

	2017	2016
Balance July 1,	\$937,480	\$899,322
Actuarial adjustment	65,649	140,049
Payment of benefits	(101,891)	(101,891)
Balance June 30,	\$901,238	\$937,480

10. Discontinued Operations

BH Holdings, S.A.S ("BHH")

On January 12, 2012 BHH initiated the filing of an insolvency declaration with the Tribunal de Commerce de Rennes, France ("Commercial Court"). The Commercial Court on January 18, 2012 opened the liquidation proceedings with continuation of BHH's activity for 3 months and named an administrator to manage BHH. Since Drew no longer had a controlling financial interest in BHH it was deconsolidated in the December 31, 2011 quarterly consolidated financial statements and prior period amounts are presented as discontinued operations.

Assets and liabilities of discontinued operations of BHH included in the consolidated balance sheets are summarized as follows at June 30, 2017 and 2016 (in thousands):

	June 30, 2017	June 30, 2016
Assets		
Total assets	\$—	\$—
Liabilities		
Accrued lease termination costs	91	89
Total liabilities	91	89
Net assets of discontinued operations	\$(91)	\$(89)

During fiscal year 2015 the Company was informed by French Counsel that the total amount claimed by the BHH landlord in the liquidation of BHH was approximately \$86,000. The Company did not have insight into the French liquidation process due to the Liquidator's reticence to communicate with the Company. As such, the Company had accrued the present value of the maximum amount potentially due under the lease guaranteed by the Company on behalf of BHH. The landlord's claim under liquidation of approximately \$86,000 can not be revisited by the landlord and can only be potentially increased by interest or sundry expenses. Beginning in 2016 any changes to this liability are included in continuing operations. As of June 30, 2017 and June 30, 2016, the liability was approximately \$91,000 and \$89,000, respectively.

11. Related Party Transactions

During the year ended June 30, 2016 and 2017, Richard J. DePiano, Sr., the Company's Chairman, participated in an accounts receivable factoring program that was implemented by the Company. Under the program, Mr. DePiano advanced the Company \$270,000 and \$275,000, respectively during the year ended June 30, 2017 and 2016. The total balance outstanding as of June 30, 2017 and 2016 was \$545,000 and \$275,000 respectively. Interest on the transactions are 1.25% per month, which was equal to the best price offered by the Company's usual factoring agent. The transaction excluded fees typically charged by the factoring agent and provided much needed liquidity to the Company. Related party interest expense for the year ended June 30, 2017 and 2016 was \$67,348 and \$11,400, respectively. Repayment is due upon the Company receiving payment from the underlying receivables purchased by Mr. DePiano. In the near term Mr. DePiano will roll-over the original \$545,000 investment as the receivables are collected and additional receivables will be assigned as collateral until such time as the Company no longer needs the liquidity.

12. Fair Value Measurements

On July 1, 2008, the Company adopted the FASB-issued authoritative guidance for the fair value of financial assets and liabilities. This standard defines fair value and establishes a hierarchy for reporting the reliability of input measurements used to assess fair value for all assets and liabilities. The FASB issued authoritative guidance defines fair value as the selling price that would be received for an asset, or paid to transfer a liability, in the principal or most advantageous market on the measurement date. The hierarchy established prioritizes fair value measurements based on the types of inputs used in the valuation technique. The inputs are categorized into the following levels:
Level 1—Observable inputs such as quoted prices in active markets for identical assets or liabilities.
Level 2—Directly or indirectly observable inputs for quoted and other than quoted prices for identical or similar assets and liabilities in active or non-active markets.

Level 3—Unobservable inputs not corroborated by market data, therefore requiring the entity to use the best available information available in the circumstances, including the entity's own data.

Certain financial instruments are carried at cost on the consolidated balance sheets, which approximates fair value due to their short-term, highly liquid nature. These instruments include cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and related party note payable.

13. Line of Credit

On December 29, 2016, the Company entered into a credit agreement providing the Company up to an aggregate of \$250,000 in cash, secured by the Company's inventory. The Company, and its wholly owned subsidiary Sonomed, Inc., entered into an Inventory Advance Agreement as of December 29, 2016 (the "Agreement"), with CDS Business Services, Inc., doing business as Newtek Business Credit ("Newtek"). Newtek may in its discretion make loans against the Company's Eligible Inventory in an aggregate amount outstanding at any time up to the lesser of (i) fifty percent (50%) of the Inventory Value or (ii) the Inventory Advance Limit, as those terms are defined in the Agreement, which is currently \$250,000. The credit agreement renews annually and can be terminated upon 90 days written notice from the Company or 30 days written notice from NewTek.

If, at any time and for any reason, the aggregate amount of the outstanding advances under the Agreement exceeds the Inventory Advance Limit or percentage limitation contained in the preceding sentence, then Company must, upon demand by Newtek, immediately pay to Newtek, in cash, the amount of such excess, or at Newtek's option Newtek may charge such excess against any reserves held by Newtek.

Newtek will maintain reserves against Company's availability for advances and may maintain reserves against the Company's accounts and/or ineligible inventory as well, or maintain a cash collateral deposit account, as Newtek in its discretion deems appropriate. Newtek may also increase such reserves or reduce its advance percentages based on eligible inventory without declaring an event of default and without prior notice, if it determines, in its discretion, that such increase in reserves or reduction is necessary, including, without limitation, to protect its interest in the collateral and/or against diminution in the value of any collateral, and/or to insure the prospect of payment or performance by Company of its obligations to Newtek are not impaired.

Interest will accrue on the daily balance at the per annum rate of 5.00% above the Prime Rate (currently 4.25%), but not less than 5.0%. The current annual interest rate is 9.25% as of June 30, 2017. The Company's obligations will, at the option of Newtek, (i) from and after the occurrence of an event of default, or (ii) if the Company's obligations are not paid in full by the termination date, bear interest at the per annum rate of 10.00% above the prime rate. All interest payable by under the financing documents will be computed on the basis of a 360 day year for the actual number of days elapsed on the daily balance. The Company was also obligated to pay to Newtek a closing fee equal to 1.00% of the Advance Limit. Upon any renewal of the Agreement, an annual fee will be due from Company equal to 1.00% of the Advance Limit.

In consideration of monitoring, ledgering and other administrative functions undertaken by Newtek in connection with the Company's inventory, and the merchant processor, Company is obligated pay Newtek a monthly collateral monitoring fee calculated by multiplying (i) seventy basis points (0.70%) (approximately an annual rate of 8.5%) (except during the existence of an Event of Default at which time it shall be 1%) by (ii) the amount of the average daily balances during the calendar month preceding the month for which the calculation is made.

The foregoing description of the Agreement does not purport to be complete and is qualified in its entirety by reference to the Agreement, a copy of which is attached to the Form 8-K report dated December 29, 2016. As of June 30, 2017, the line of credit balance is at \$250,000. The line of credit expense is \$33,000 for the year ended June 30, 2017.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, the Company's management evaluated, with the participation of the Company's principal executive officer and principal financial officer, the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are ineffective in ensuring that information required to be disclosed by the company in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to our management, including the Company's principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Management's Report on Internal Control over Financial Reporting

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The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934). The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that the Company's receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on our financial statements.

As of the end of the period covered by this Annual Report on Form 10-K, the Company's management evaluated, with the participation of its principal executive officer and principal financial officer, the effectiveness of the Company's internal control over financial reporting. This evaluation was conducted using the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission 2013. Based upon that evaluation, the Company's management concluded that its internal control over financial reporting was effective as of June 30, 2017.

Pursuant to the rules of the SEC, the Company's management's report on internal control over financial reporting is furnished with this Annual Report on Form 10-K and shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed to be incorporated by reference in any filing under the Securities Act of 1933 or Securities Exchange Act of 1934.

This Annual Report on Form 10-K does not include an attestation report of the Company's independent registered public accounting firm regarding the Company's internal control over financial reporting. The Company's management's report on internal control over financial reporting was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permits the Company to provide only the Company's management's report on internal control over financial reporting in this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our fourth fiscal quarter of 2017 that would have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B OTHER INFORMATION

None

PART III

ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Item 10 will be provided by incorporating the information required under such item by reference to the Company's Proxy Statement to be filed with the SEC no later than 120 days after the end of the fiscal year covered by this Form 10-K annual report, or, alternatively, by amendment to this Form 10-K annual report under cover of Form 10-K/A no later than the end of such 120-day period.

**ITEM 11. EXECUTIVE
COMPENSATION**

Item 11 will be provided by incorporating the information required under such item by reference to the Company's Proxy Statement to be filed with the SEC no later than 120 days after the end of the fiscal year covered by this Form 10-K annual report, or, alternatively, by amendment to this Form 10-K annual report under cover of Form 10-K/A no later than the end of such 120-day period.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND
RELATED STOCKHOLDER MATTERS**

Item 12 will be provided by incorporating the information required under such item by reference to the Company's Proxy Statement to be filed with the SEC no later than 120 days after the end of the fiscal year covered by this Form 10-K annual report, or, alternatively, by amendment to this Form 10-K annual report under cover of Form 10-K/A no later than the end of such 120-day period.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Item 13 will be provided by incorporating the information required under such item by reference to the Company's Proxy Statement to be filed with the SEC no later than 120 days after the end of the fiscal year covered by this Form 10-K annual report, or, alternatively, by amendment to this Form 10-K annual report under cover of Form 10-K/A no later than the end of such 120-day period.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Item 14 will be provided by incorporating the information required under such item by reference to the Company's Proxy Statement to be filed with the SEC no later than 120 days after the end of the fiscal year covered by this Form 10-K annual report, or, alternatively, by amendment to this Form 10-K annual report under cover of Form 10-K/A no later than the end of such 120-day period.

PART IV

ITEM 15. EXHIBITS FINANCIAL STATEMENT SCHEDULES

1. Documents Filed as Part of This Annual Report on Form 10-K:

a. Financial Statements

The following consolidated financial statements of the Company and its subsidiaries are included in Part II, Item 8 of this Annual Report on Form 10-K:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of June 30, 2017 and 2016

Consolidated Statements of Operations for the years ended June 30, 2017 and 2016

Consolidated Statements of Shareholders' Equity for the years ended June 30, 2017 and 2016

Consolidated Statements of Cash Flows for the years ended June 30, 2017 and 2016

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

All other schedules have been omitted because the required information is not applicable or the information is included in the Company's Consolidated Financial Statements or the related Notes to Consolidated Financial Statements.

3. EXHIBITS

The following is a list of exhibits filed as part of this Annual Report on Form 10-K, where so indicated by footnote, exhibits that were previously filed, are incorporated by reference. For exhibits incorporated by reference, the location of the exhibit in the previous filing is indicated parenthetically, followed by the footnote reference to the previous filing.

3.1 (a) Restated Articles of Incorporation of the Company. (8)

(b) Agreement and Plan of Merger dated as of September 28, 2001 between Escalon Pennsylvania, Inc. and Escalon Medical Corp. (8)

3.2 Bylaws of Registrant. (8)

10.6 Employment Agreement between the Company and Richard J. DePiano dated May 12, 1998. (6)**

10.7 Non-Exclusive Distributorship Agreement between Company and Scott Medical Products dated October 12, 2000. (9)

10.13 Supply Agreement between the Company and Bausch & Lomb Surgical, Inc. dated August 13, 1999. (5)

10.29 Company's amended and restated 1999 Equity Incentive Plan. (13) **

10.33 Manufacturing Supply and Distribution Agreement between Sonomed, Inc. and Ophthalmic Technologies, Inc. dated as of March 11, 2004. (15)

10.34 Supplemental Executive Retirement Benefit Agreement for Richard DePiano dated June 23, 2005. (16)**

10.35 Settlement Agreement with Intralase Corp, dated February 27, 2008 (4).

10.36 Vascular Access Sales Agreement with Vascular Solutions, Inc. dated April 28, 2010 (17)

10.37 2013 Equity Incentive Plan dated December 27, 2013 incorporate by reference.

Newtek agreement-incorporate by reference to 8-K.

21 Subsidiaries. (11)

23.1 Consent of Independent Registered Public Accounting Firm (*).

31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002 (*).

31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002 (*).

32.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002 (*).

32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002 (*).

* Filed herewith

** Management contract of compensatory plan

(1) Filed as an exhibit to Pre-Effective Amendment No. 2 to the Company's Registration Statement on Form S-1 dated November 9, 1993 (Registration No. 33-69360).

(2) Filed as an exhibit to the Company's Form 10-KSB for the year ended June 30, 1994.

(3) Filed as an exhibit to the Company's Form 10-KSB for the year ended June 30, 1995.

(4) Filed as an exhibit to the Company's Form 8-K dated February 27, 2008.

(5) Filed as an exhibit to the Company's Form 10-KSB for the year ended June 30, 1999.

(6) Filed as an exhibit to the Company's Form 8-K/A, dated March 31, 2000

(7) Filed as an exhibit to the Company's Registration Statement on Form s-* dated February 25, 2000 (Registration No. 333-31138).

(8) Filed as an exhibit to the Company's Proxy Statement on Schedule 14A, as filed by the Company with the SEC on September 21, 2001.

(9) Filed as an exhibit to the Company's Form 10-KSB for the year ended June 30, 2001.

(10) Filed as an exhibit to the Company's Form 10-Q for the quarter ended March 31, 2001.

(11) Filed as an exhibit to the Company's Form 10-KSB/A for the year ended June 30, 2002.

(12) Filed as an exhibit to the Company's Form 10-Q for the quarter ended December 31, 2002.

(13) Filed as an exhibit to the Company's Form 10-Q for the quarter ended December 31, 2003.

(14) Filed as an exhibit to the Company's Registration Statement on Form s_3 dated April 8, 2004 (Registration No. 333-114332).

(15) Filed as an exhibit to the Company's Form 10-Q for the quarter ended March 31, 2004.

(16) Filed as an exhibit to the Company's Form 8-K, dated June 23, 2005.

(17) Filed as an exhibit to the Company's Form 8-K, dated May 6, 2010.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Escalon Medical Corp.
(Registrant)

By: /s/ Richard J. DePiano, Jr.
Richard J. DePiano, Jr.
Chief Executive Officer

Dated: September 28, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ Richard J. DePiano Richard J. DePiano	Chairman	September 28, 2017
By: /s/ Richard J. DePiano, Jr. Richard J. DePiano, Jr.	Chief Executive Officer (Principal Executive Officer)	September 28, 2017
By: /s/ Mark Wallace Mark Wallace	Chief Operating Officer and Principal Financial & Accounting Officer	September 28, 2017
By: /s/ Sean Closkey Sean Closkey	Director	September 28, 2017
By: /s/ Lisa Napolitano Lisa Napolitano	Director	September 28, 2017
By: /s/ C. Todd Trusk C. Todd Trusk	Director	September 28, 2017