LITTLEFIELD CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2014 AND 2013

LITTLEFIELD CORPORATION

DECEMBER 31, 2014 AND 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Littlefield Corporation

We have audited the accompanying statements of Littlefield Corporation (the "Company") which comprises the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, consolidated statements of stockholders' equity, and consolidated statements of cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Littlefield Corporation as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
November 30, 2015

LITTLEFIELD CORPORATION

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2014 AND 2013

	December 31, 2014	December 31, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,529,013	$ 736,793
Accounts receivable, net of allowance for doubtful accounts of $137,607 and $137,607, respectively	324,016	352,207
Other current assets	27,111	44,339
Note receivable - current portion	477,113	437,609
Total Current Assets	2,357,253	1,570,948
Property, plant and equipment, net	4,696,203	5,166,633
Other assets:		
Goodwill	3,195,433	3,195,433
Intangible assets, net	940,382	1,018,715
Note receivable - net of current portion	769,025	1,268,831
Other non-current assets	152,308	114,052
	5,057,148	5,597,031
Total Assets	$ 12,110,604	$ 12,334,612
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 158,915	$ 103,185
Accrued expenses	81,777	324,607
Deferred revenue	3,456	-
Current portion of long term debt	1,964,897	2,112,592
Total Current Liabilities	2,209,045	2,540,384
Long-term Liabilities:		
Long term debt, net of current portion	736,674	719,536
Total Long-term Liabilities	736,674	719,536
Total Liabilities	2,945,719	3,259,920
Stockholders' Equity:		
Common stock, par value $0.001; (40,000,000 shares authorized, 18,817,406 shares issued, 17,285,737 and 17,285,737 shares outstanding, respectively)	18,818	18,818
Additional paid-in capital	31,364,466	31,364,466
Treasury Stock; 1,531,669 and 1,531,669 shares, at cost	(1,385,028)	(1,385,028)
Accumulated deficit	(20,833,371)	(20,923,564)
Total Stockholders' Equity	9,164,885	9,074,692
Total Liabilities and Stockholders' Equity	$ 12,110,604	$ 12,334,612

See accompanying notes to the consolidated financial statements.

LITTLEFIELD CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED
DECEMBER 31, 2014 AND 2013

	2014	2013
REVENUE		
Entertainment	$ 5,024,962	$ 6,276,531
Other	122,059	121,918
Total Revenues	5,147,021	6,398,449
OPERATING EXPENSES		
Salaries and other compensation	55,827	513,233
Rent and utilities	1,833,884	2,094,701
Other direct operating expenses	1,053,357	1,213,737
Depreciation and amortization	542,765	673,960
License expense	39,354	49,950
Total Operating Expenses	3,525,187	4,545,581
GROSS PROFIT	1,621,834	1,852,868
GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries and other compensation	868,000	773,575
Legal and accounting fees	101,182	182,498
Depreciation and amortization	40,853	50,728
Stock-based compensation expense	-	5,107
Other general and administrative	449,579	379,333
Total General and Administrative Expenses	1,459,614	1,391,241
SALES OF BUSINESSES	-	584,193
INCOME (LOSS) FROM OPERATIONS	162,220	1,045,820
OTHER INCOME (EXPENSE)		
Interest income	60,306	11,061
Gain (loss) on asset disposition	19,482	-
Interest expense	(141,443)	(138,029)
Other, net	14,566	43,926
Total Other Income (Expense)	(47,089)	(83,042)
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	115,131	962,778
PROVISION FOR INCOME TAXES	24,938	37,500
NET INCOME (LOSS)	$ 90,193	$ 925,278

(Continued)

LITTLEFIELD CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(Continued)

FOR THE YEARS ENDED
DECEMBER 31, 2014 AND 2013

EARNINGS (LOSS) PER SHARE:	2014	2013
Basic earnings (loss) per share	$ 0.01	$ 0.05
Diluted earnings (loss) per share	$ 0.01	$ 0.05
Weighted average shares outstanding - basic	17,285,737	17,398,165
Weighted average shares outstanding - diluted	17,285,737	17,398,421

See accompanying notes to the consolidated financial statements.

LITTLEFIELD CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED
DECEMBER 31, 2014 AND 2013

	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Stockholders' Equity
BALANCE, DECEMBER 31, 2012	17,399,727	$ 18,818	$ 31,359,359	$ (1,350,831)	$(21,848,842)	$ 8,178,504
Stock-based compensation	-	-	5,107	-	-	5,107
Repurchase of treasury stock	(113,990)	-	-	(34,197)	-	(34,197)
Net income (loss)	-	-	-	-	925,278	925,278
BALANCE, DECEMBER 31, 2013	17,285,737	18,818	31,364,466	(1,385,028)	(20,923,564)	9,074,692
Net income (loss)	-	-	-	-	90,193	90,193
BALANCE, DECEMBER 31, 2014	17,285,737	$ 18,818	$ 31,364,466	$ (1,385,028)	$(20,833,371)	$ 9,164,885

See accompanying notes to the consolidated financial statements.

LITTLEFIELD CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 90,193	$ 925,278
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	583,618	724,688
Stock-based compensation expense	-	5,107
(Gain) loss on sales of businesses	-	(584,193)
(Gain) loss on sale of equipment	19,482	(3,365)
Increase (decrease) in cash flows as a result in changes in operating assets and liabilities:		
Accounts receivable, net	28,191	240,130
Other assets	(21,028)	270,343
Trade accounts payable	55,730	(44,308)
Deferred revenue	3,456	-
Accrued expenses and other liabilities	(242,830)	(833,504)
Net Cash Provided (Used) by Operating Activities	516,812	700,176
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(233,440)	(175,907)
Purchase of goodwill and intangibles	179,103	4,483
Proceeds from sales of businesses	-	(1,516)
Proceeds from repayment of notes receivable, net	460,302	105,181
Net Cash Provided (Used) by Investing Activities	405,965	(67,759)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	(154,836)	(339,666)
Proceeds from notes payable	700,000	-
Payoff of refinanced notes payable	(675,721)	-
Net Cash Provided (Used) by Financing Activities	(130,557)	(339,666)
NET INCREASE (DECREASE) IN CASH	792,220	292,751
CASH, BEGINNING OF YEAR	736,793	444,042
CASH, END OF YEAR	$ 1,529,013	$ 736,793
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 141,444	$ 138,030
Cash paid during the year for income taxes	$ 33,849	$ 33,849
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Sale of business in exchange for note receivable, net of assumed debt	$ -	$ 1,703,921

See accompanying notes to the consolidated financial statements.

1. NATURE OF OPERATIONS

Littlefield Corporation actively participates in the U.S. charitable bingo market. The Company's corporate headquarters is located in Waco, Texas, and the Company operates primarily through wholly owned subsidiaries in Texas, Alabama and Florida. The Company generates its revenues from bingo centers in these three states.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method

The financial statements of the Company have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities in accordance with generally accepted accounting principles.

Codification

The Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) is the single official source of authoritative, nongovernmental U. S. generally accepted accounting principles (GAAP).

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Littlefield Corporation and its approximately seventy-four subsidiaries (herein collectively referred to as the "Company"). All significant intercompany accounts and transactions have been eliminated in the consolidation

Use of Accounting Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used. Key significant estimates of the Company include allowance for uncollectible accounts receivable, depreciable lives of fixed assets, and amortization period of intangible assets.

Cash and Cash Equivalents

The indirect method is used to prepare the statement of cash flows. For the purposes of this statement, the Company considers cash in bank and all highly liquid investments with original maturity of three months or less at the date of acquisition to be "cash equivalents."

Accounts Receivable

Accounts receivable consist of amounts due from charitable organizations that conduct bingo events at the company's various bingo centers and are generally payable within one month of the event. Receivables also include rent due from operators of concessions located within certain bingo centers. Accounts receivable are not secured. Management provides an allowance for doubtful accounts, which reflects its estimate of the uncollectible receivables. In the event of non-performance, the maximum exposure to the Company is the recorded amount of receivables, net of allowance for doubtful accounts, at the balance sheet date.

Property and Equipment

The cost of equipment, furniture, and fixtures is depreciated over the estimated useful lives of the assets, ranging from two to seven years, using the straight-line method. Leasehold improvements are amortized over the lesser of the remaining term of the lease or the estimated useful lives. Buildings are depreciated over forty years, which approximates their estimated useful lives. Building improvements are amortized over their estimated useful lives, which range from seven to forty years. Upon sale, retirement, or abandonment of assets, the related cost and accumulated depreciation are eliminated from the accounts and gains or losses are reflected in income. Repairs and maintenance expenses that do not extend asset lives are expenses as incurred.

Compensated Absences

During 2013, the Company completely paid off the balances owed to employees for compensated vacation and sick pay and are no longer providing compensated vacation or sick pay for employees. Therefore, no amount has been accrued in the financial statements for the years ended December 31, 2014 and 2013.

Advertising Expenses

The Company has the policy of expensing advertising costs as incurred. Advertising costs charged to expenses were $77,487 in 2014 and $100,868 in 2013.

Goodwill and Intangible Assets

Intangible assets, which primarily consist of goodwill, bingo licenses and non-compete covenants resulting from the acquisition of bingo entities, are periodically reviewed by management to evaluate the future economic benefits or potential impairments, which may affect their recorded values. Goodwill represents the excess of the cost of assets acquired over the fair market value of those tangible assets on the date of their acquisition. Under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 350, *Intangibles, Goodwill and Other*, goodwill acquired in a business combination for which the acquisition date is after June 30, 2001, shall not be amortized, but shall be reviewed for impairment in value annually. The Company has defined a single operating segment in that the Company's operations share similar economic characteristics and similar customers, among other characteristics.

Since 2002, goodwill and intangible assets with indefinite lives are no longer amortized. These indefinite-lived assets only pertain to halls in the state of Texas. The Company has one class of assets that is classified as indefinite and not subject to periodic amortization. This class of asset is known as a "Grandfathered license." In discussing these Grandfathered licenses, a distinction should be made as to the types of bingo licenses the Company owns. There are two classes of commercial lessor licenses in Texas, Grandfathered and a Tier. The Grandfathered license refers to any license that was in existence prior to 1989 in which a non-renewal has not occurred.

A Grandfathered license allows the operator to have up to seven (7) charities in a hall and charge up to $600 per session in rent. These licenses are regulated by the Texas Lottery Commission and must be renewed each year. There is an annual fee associated with the renewal of these licenses, which is expensed throughout the year. There are a limited number of these licenses available and they are traded between individuals and organizations. They are traded commodity, in that they have a cash value which is determined by the market place. These licenses can only be revoked or canceled by failing to renew them by the renewal date or for illegal activity.

A Tier license is deemed by the Company to have no value as an asset and is not recorded as an asset. A Tier commercial lessor license is any license issued after 1989 or any license issued prior to 1989 in which a non-renewal occurred. A Tier license allows the operator to have one 91) charity in a hall and charge up to $600 per session in rent. These licenses are issued, renewed, and applied for through the Texas Lottery Commission. The only cost associated with obtaining and keeping this type of license is an annual renewal fee, which is expensed throughout the year. These licenses are not sold on a negotiated basis, at this time.

In Alabama, there is a business license which is based upon the gross amount of rents, these two are renewed annually and expensed during the year. These licenses are not recorded as assets and, therefore, have no related amortization.

Non-compete covenants are amortized over the periods of the stated benefits, ranging from one to five years, and are monitored for contractual compliance. If the projected and undiscounted future cash flows related to the intangible assets are less than the recorded value, the intangible asset is written down to fair value.

Revenue Recognition

The Company generates revenues from the following sources and recognizes revenue when earned and collectability is probable.

Bingo – Bingo rents, paper sales, and head tax payments are received from charitable organizations through various sub-lease agreements of the Company's bingo centers. Revenues are determined by customer attendance, spending and prize payouts, profit splits, as well as state regulations, which may dictate the number of bingo sessions a charity can conduct and rent limits that can be paid to a commercial lessor, such as the company. Revenues are accrued and accounted for in the month that they are due when realizable. Revenues that are generated by amounts, such as customer attendance, are recognized in the month they are earned and collectability is probable.

Other – Other revenues are earned concessions, vending machines, bingo supplies, and other sources. Other revenues are recognized in the month they are earned when collectability is probable.

Income Taxes

Deferred income tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the tax basis and financial reporting carrying amounts of assets and liabilities. The Company periodically evaluates its deferred tax assets and adjusts any related valuation allowance based on the estimate of the amount of such deferred tax assets which the Company does not believe will meet the "more-likely-than-not" recognition criteria. At December 31, 2014, the Company did not recognize a liability for uncertain tax positions. The Company does not expect its unrecognized tax benefits to change significantly over the next twelve months. The last three tax years remain open to examination by the major taxing jurisdictions in which the company files income tax returns.

Per Share Data

Basic earnings (loss) per share of common stock is calculated by dividing net income (loss) available to common stockholders by the weighted average number of common shares actually outstanding during each period. Diluted earnings (loss) per share of common stock is calculated by dividing net income (loss) by the fully diluted weighted average number of common shared outstanding during each period, which includes dilutive stock options and convertible shares.

Intangibles and Goodwill

In September 2011, the FASB updated FASB ASC 350, Intangibles Goodwill and Other, which gives an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The company adopted the update as required as of the period ended March 2012 and concluded it did not have a material impact on its consolidated financial position or results of operations.

Reclassifications

Certain amounts in the prior periods presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported net income (loss).

3. CONCENTRATION OF CREDIT RISK

The Company mainly maintains its cash and certificates of deposit in banks which are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. At December 31, 2014 and 2013, approximately $987,005 and $298,519, respectively, of cash in banks exceeded FDIC coverage limits.

4. NOTES RECEIVABLES

As part of the consideration received in the May 2013 sale of all South Carolina subsidiaries, the Company recorded a new promissory note receivable of approximately $1.5 million along with the elimination of two note payables previously held by the Company in the amount of $280,883 from the buyer. The note receivable will be repaid to the Company over a period of five years through quarterly payments of $79,019.

Management provides an allowance for doubtful accounts related to this notes receivable which reflects its estimate of the uncollectible receivables. For the years ended December 31, 2014 and 2013, the allowance for these note receivables totaled $115,407 and $115,407, respectively. In addition, the Company recorded a bad debt expense in the amount of $24,700 and $115,407 for the years ended December 31, 2014 and 2013, respectively.

5. IMPAIRMENTS AND OTHER CHARGES

Effective May 2013, the Company sold its stock and assets in all South Carolina subsidiaries for approximately $1.79 million. The Company recognized the following consideration from the buyer as part of the sale: a promissory note of $1.5 million and assumption of two note payables previously held by the Company in the amount of $280,883. The Company recorded a net gain on the sale of the South Carolina subsidiaries in the amount of $749,810 which is recognized on the Statement of Operations for the year ended December 31, 2013.

As a result of the sale and in accordance with FASB ASC 350, Intangibles, Goodwill and Other, the company wrote-off $125,510 for the carrying amount of Covenants Not to Compete and Bingo Licenses related to South Carolina subsidiaries. This amount is included on the Statement of Operations as a part of the net gain (loss) on asset disposition.

6. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2014 and 2013 consists of the following:

	2014	2013
Land	$ 740,468	$ 771,720
Buildings	3,459,541	3,447,844
Leasehold improvements	5,424,605	5,294,902
Equipment, furniture, and fixtures	2,875,503	2,850,562
Automobiles	136,162	96,881
	12,636,279	12,461,909
Less accumulated depreciation	(7,940,076)	(7,457,201)
	$ 4,696,203	$ 5,004,708

Depreciation expense of property and equipment charged to operations for the years ended December 31, 2014 and 2013 was $505,285 and $625,521, respectively.

7. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill at December 31, 2014 and 2013 is as follows:

	Gross Carrying Amount	Accumulated Amortization	Total
Goodwill at December 31, 2012	$ 3,848,667	$(653,234)	$ 3,195,433
Goodwill acquired during period	-		-
Goodwill impairment losses	-	-	-
Goodwill at December 31, 2013	3,848,667	(653,234)	3,195,433
Goodwill acquired during period	-		-
Goodwill impairment losses	-	-	-
Goodwill at December 31, 2014	$ 3,848,667	$(653,234)	$ 3,195,433

Intangible assets at December 2014 and 2013 consist of the following:

	Gross Carrying Amount	Accumulated Amortization	Total
Intangible Assets with Indefinite Lives:			
Bingo licenses at December 31, 2012	$ 881,339	$(51,974)	$ 829,365
Licenses acquired during the period	(52,177)	-	(52,177)
Bingo licenses at December 31, 2013	829,162	(51,974)	777,188
Licenses relinquished during the period	-	-	-
Bingo licenses at December 31, 2014	$ 829,162	$(51,974)	$ 777,188
Intangible Assets with Finite Lives:			
Covenants not to compete at December 31, 2012	927,500	(513,472)	414,028
Change in covenants not to compete	(307,500)	135,000	(172,500)
Covenants not to compete at December 31, 2013	620,000	(378,472)	241,528
Change in covenants not to compete	-	(78,334)	(78,334)
Covenants not to compete at December 31, 2014	$ 620,000	$(456,806)	$ 163,194

Amortization expense charged to operations for the years ended December 31, 2014 and 2013 totaled $78,334 and $99,167, respectively. As noted in Note 5, the change in covenants not to compete and bingo licenses include a net write-off of $125,510 as a result of the sale of the South Carolina subsidiaries.

Future amortization of intangible assets with finite lives is as follows:

Year	
2015	$ 78,334
2016	78,334
2017	6,526
2018	-
Thereafter	-
Total	$ 163,194

8. LONG-TERM DEBT

Long-term debt at December 31, 2014 and 2013 consists of the following:

	2014	2013
Note payable to bank, due in monthly installments of $16,398, including interest at approximately 4.65% (bank interest-bearing liabilities index plus 4.00%), maturing December 2015, secured by real estate and stockholder guarantee.	$ 1,905,714	$ 2,009,740 *
Mortgage note payable to a bank, due in monthly installments of $8,382, including interest at 5.25%, maturing April 2022, secured by a deed of trust on the real estate. This note was refinanced into the note below.	-	675,721
Mortgage note payable to a bank, due in monthly installments of $4,454, including interest at 4.50%, maturing July 2019, secured by a deed of trust on the real estate.	685,857	-
Installment note payable to a third party, due in annual installments of $36,667, unsecured, maturing January 2017.	110,000	146,667
	$ 2,701,571	$ 2,832,128
Less current maturities	(1,964,897)	(2,112,592)
Long-term debt, net of current portion	$ 736,674	$ 719,536

*On December 20, 2013, the company consolidated and refinanced certain loans into a $2.009 million loan with a one year maturity and subject to certain financial covenants. During 2014 the Company renewed the note for an additional year and continues to intend to renew the note on or before its maturity date.

Interest expense for the years ended December 31, 2014 and 2013 was $141,443 and $138,030 respectively.

Payments of long-term debt for each of the next five fiscal years and thereafter are as follows:

Year Ended December 31	Total
2015	$ 1,964,897
2016	60,006
2017	61,179
2018	25,655
2019	589,834
Thereafter	-
	$ 2,701,571

9. STOCKHOLDERS' EQUITY

On February 6, 2013, the company voluntarily terminated its registration under Section 12 of the Securities Exchange Act of 1934 (the "Exchange Act") and ceased filing periodic and current reports with the Securities and Exchange Commission (the "SEC"). The Company determined that it had only 105 stockholders of record as of February 5, 2013. Accordingly, the Company filed a Form 15 with the SEC pursuant to Rule 12h-3(b)(1)(i), to notify the SEC of the suspension of its duty to file reports under the Exchange Act. The company was current in all of its filing obligations under the Exchange Act at that time.

In 2014 and 2013, the company did not issue shares of treasury stock under the Employee Stock Purchase Plan and 401(k) Plan. However, the Company recognized additional stock-based compensation in the amount of $0 and $5,702 related to issued stock options for the years ended December 31, 2014 and 2013, respectively.

10. INCOME TAXES

A reconciliation of the expected income tax expense (benefit) based on the U.S. Corporate income and applicable state franchise tax rates of 39% follows:

	2014	2013
Expected income tax (benefits)	$ 44,901	$ 375,483
Amounts not deductible for federal income tax purposes	814	1,614
Other	922	3,579
State income taxes, net of federal income tax	15,212	22,875
Change in valuation allowance	(36,911)	(366,051)
	$ 24,938	$ 37,500

The reconciling item, Other, mainly reflects unused net operating loss carryforwards.

Significant components of the Company's deferred tax assets and liabilities as of December 31, 2014 and 2013 are as follows:

	2014	2013
Deferred tax assets:		
Net operating loss carryforward	$ 7,501,467	$ 7,504,202
Deferred tax asset (liability) net	(357,985)	(323,809)
Valuation allowance for deferred tax asset	(7,143,482)	(7,180,393)
	$ -	$ -

The components of valuation allowance for deferred tax assets (liabilities) at December 31, 2014 and 2013 are as follows:

	2014	2013
Deferred tax asset (liability)		
Net operating loss carryforward	$ 7,180,393	$ 6,831,613
Depreciation	(357,985)	(323,809)
Allowance for doubtful accounts	53,667	8,658
Accrued expenses and impairemnts	87,075	483,988
Capital loss carryforward	561	561
Other	179,771	179,382
	$ 7,143,482	$ 7,180,393

The non-current deferred tax liability results from differences in depreciation and amortization of assets and the non-current deferred tax assets mainly result from differences in legal reserves for financial and federal income tax reporting purposes and the deferred tax benefit of net operating losses. Due to continuing operating losses for tax purposes, the net deferred tax asset has been allowed for as it does not meet the "more-likely-than-not" recognition criteria. As shown in the above disclosure information and reconciliation, the net deferred tax asset (liability) has been fully reserved by the Company.

The company does not expect to incur material federal income tax charges until the depletion of its accumulated federal income tax loss carry-forwards. At December 31, 2014, the company has a net operating loss carry forwards for federal income tax purposes of approximately $15.1 million that begins expiring in the year 2017.

11. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company is obligated under various operating leases. Generally, the leases provide for minimum annual rentals as well as a proportionate share of the real estate taxes, insurance, and certain common area charges. Minimum annual rentals under these leases are as follows:

Year Ended December 31	Minimun Rentals
2015	$ 1,291,308
2016	1,094,285
2017	1,040,285
2018	868,973
2019	584,697
Thereafter	-
	$ 4,879,548

Rent expense for the years ended December 31, 2014 and 2013 amounted to approximately $1.67 million and $1.89 million, respectively.

The Company is party to certain subleases requiring monthly rent. The minimum annual future receipts under these subleases are as follows:

Year Ended December 31	Minimun Rentals
2015	$ 41,750
2016	138,600
2017	124,218
2018	106,090
2019	-
Thereafter	-
Total minimum annual rents	$ 410,658

Legal

The Company is also sometimes engaged in routine litigation incidental to its business. In general, the company will vigorously defend itself against all claims to the fullest extent possible. The legal proceedings exclude certain insurance claims for which the Company believes are covered and defended by existing insurance policies and ordinary and incidental matters.

Stock Repurchase Plan

During 2009, the Company reinstated its share repurchase program and authorized the purchase of its common shares. However at this time, there is no commitment or obligation on the part of the Company to purchase any particular number of shares, and the program may be suspended at any time at the Company's discretion. During 2013, this stock repurchase plan was suspended at the Company's discretion.

401(k) and Employee Stock Ownership Plan

The Company has a 401(k) and Employee Stock Ownership Plan that was instituted in 2001. In 2013, employees were allowed to defer up to 90% of their wages, tax deferred, to a maximum of $17,000 or $22,500, depending upon age, for retirement purposes. The Company has no obligation to match any of the employee deferrals and contributions to the plan are at the discretion of management. For the years ended December 31, 2014 and 2013, the Company did not make any contributions to the either the 401(k) plan or the Employee Stock Ownership Plan as these plans were suspended.

12. EARNINGS PER SHARE

A reconciliation of basic to diluted earnings (loss) per share is as follows:

Year ended December 31,	2014 Basic	2014 Diluted	2013 Basic	2013 Diluted
Numerator:				
Net income (loss)	$ 90,193	$ 90,193	$ 925,278	$ 925,278
Net income (loss) available to common stockholders	$ 90,193	$ 90,193	$ 925,278	$ 925,278
Denominator:				
Weighted average shares outstanding	$ 17,285,737	$ 17,285,737	$ 17,398,165	$ 17,398,165
Effect of dilutive securities:				
Stock options and warrants	-	-	-	256
Weighted average shares outstanding	$ 17,285,737	$ 17,285,737	$ 17,398,165	$ 17,398,421
Earnings (loss) per share	$0.01	$0.01	$0.05	$0.05

Stock options to acquire 0 and 2,524,285 shares for the years ended December 31, 2014 and 2013, respectively, were excluded in the computation of diluted earnings per share because of the effect of including the stock options would have been anti-dilutive or the options were out of the money.

13. STOCK-BASED COMPENSATION

The Company applies FASB ASC 718, *Compensation Stock Compensation* and FASB ASC 505, *Equity*, using the modified prospective method of implementation, whereby the prospective method records the compensation expense from the implementation date forward, however, it leaves prior periods unchanged in accounting for its stock options.

The Company recorded approximately $0 and $5,107 in compensation expense in the years ended December 31, 2014 and 2013, respectively, related to options issued or stock grants under its stock-based incentive compensation plans. This includes expense related to both options issued in the current year and options issued in prior years for which the requisite service period for those options includes the current year. The fair value of these options was calculated using the Black-Scholes options pricing model. For options issued in 2014 and 2013, the following assumptions were used: dividend yield of 0%, expected volatility of 78% risk free interest rates of 3.5% and an expected life of 10 years. Treasury stock generally is issued upon stock option exercises.

As the stock-based compensation program has been suspended, no stock option transactions occurred during the year. At December 31, 2014 and 2013, a total of 671,410 and 671,410 options were outstanding under these plans, respectively.

14. SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 30, 2015, the issuance date of this report. Consequently, there are no particular events that have any significant effect related to the financial position of the Company for the year ended December 31, 2014 and do not require additional disclosure.