



This Supplemental News Report is published as required, is part of the annual MERGENT INDUSTRIAL, OTC AND OTCUNLISTED Manuals and will be included in the bound July 2017 Monthly News Reports and is published on our Website.

## INTEGRITY APPLICATIONS INC

Company Website: [www.integrity-app.com](http://www.integrity-app.com)

**History:** Incorporated in Delaware on May 18, 2010. On May 23, 2010, Co. established Integrity Acquisition Corp. Ltd. in Israel as its wholly owned subsidiary. On July 15, 2010, Co. completed a reverse triangular merger with A.D. Integrity Applications Ltd. and Integrity Acquisition Corp. Ltd., an Israeli corporation and a wholly owned subsidiary, pursuant to which Integrity Acquisition Corp. Ltd. merged with and into Integrity Israel and all of the stockholders and option holders of Integrity Israel became entitled to receive shares and options in exchange for their shares and options in Integrity Israel.

**Business Summary:** Integrity Applications is a medical device company that developed a non-invasive blood glucose monitor, the GlucoTrack® model DF-F glucose monitoring device, which is designed to help people with diabetes and individuals with pre-diabetes obtain blood glucose level readings without the pain, inconvenience, cost and difficulty of conventional (invasive) spot finger stick devices. The GlucoTrack® model DF-F utilizes a patented combination of ultrasound, electromagnetic and thermal technologies to obtain blood glucose measurements via a small sensor that is clipped onto one's earlobe and connected to a small, handheld control and display unit, all without drawing blood or interstitial fluid.

**Property:** Co. leases its principal executive offices comprising approx. 5,500 sq. ft. of office space in Ashdod, Israel.

### Subsidiary

A.D. Integrity Applications Ltd. (Israel)

### Officers

John A. Graham, Chairman; Chief Executive Officer  
 Angela Boydston Strand, Vice-Chairman  
 Sami Sassoun, CPA, Chief Financial Officer  
 David Malka, Executive Vice President - Operations  
 Eugene Naidis, Vice President - Research & Development  
 David Podwalski, Chief Commercial Officer

### Directors

John A. Graham, Chairman; Director  
 Angela Boydston Strand, Vice-Chairman; Director  
 Robert Fischell, Sc.D., Director  
 Michael Hauck, Director  
 Revan R. Schwartz, Esquire, Director  
 Leslie (Les) Seff, Director

**Auditors:** Fahn Kanne & Co. Grant Thornton Israel

**Shareholder Relations:** Sami Sassoun, Chief Financial Officer  
**Tel:** 972-55-881-4553

**No. of Stockholders:** June 30, 2017, 353

**No. of Employees:** July 23, 2017, 30

**Address:** 19 Ha' Yahalomim Street, Ashdod 77600, Israel

**Tel:** 972 8 675 7878

**Fax:** 972 8 675 7850

**Web:** [www.integrity-app.com](http://www.integrity-app.com)

**Email:** [info@integrity-app.com](mailto:info@integrity-app.com)

**Consolidated Income Statement, Years Ended Dec. 31 (\$):**

	2016	2015 (revised)	2014 (revised)	Weighted average shares outstanding			
Revenue	611,689	59,775	59,775	- basic	5,788,842	5,476,870	5,304,500
Salaries & related expenses	1,510,491	1,279,216	992,991	Weighted average shares outstanding - diluted	5,788,842	5,476,870	5,349,242
Professional fees	58,954	71,930	83,597	Year end shares outstanding	6,026,527	5,690,097	5,323,059
Regulations related expenses	620,535	488,536	413,985	Net income (loss) per share - basic	\$(1.08)	\$(1.15)	\$0.37
Patents	132,344	159,624	188,825	Net income (loss) per share - diluted	\$(1.08)	\$(1.15)	\$0.37
Materials	346,238	153,669	98,129	Number of full time employees	29	25	25
Depreciation	32,508	19,133	16,156	Number of part time employees	8	7	7
Travel expenses	66,211	39,324	27,867	Total number of employees	30	37	32
Vehicle maintenance	91,935	54,936	25,888	Number of common stockholders	353	265	127
Other research & development expenses	22,601	1,977	2,186	Reclassified to conform with 2016 presentation; <sup>2</sup> As of July 23, 2017; <sup>3</sup> As of June 30, 2017; <sup>4</sup> As of March 30, 2016; <sup>5</sup> As of March 30, 2015			
Research & development expenses	2,881,817	2,268,345	1,849,624	<b>Consolidated Balance Sheet, Years Ended Dec. 31 (\$):</b>			
Salaries & related expenses	707,111	318,716	...	2016 2015 (revised)			
Professional fees	271,984	416,575	132,504	<b>Assets:</b>			
Travel & expenses	76,022	178,167	26,943	Cash & cash equivalents			
Exhibitions & shows	72,798	175,176	49,084	Account receivable, net			
Other expenses	...	38,800	22,228	Raw materials			
Selling & marketing expenses	1,127,915	1,127,434	230,759	Work in process			
General & administrative expenses	2,257,799	1,402,741	1,586,751	Finished goods			
Total operating expenses	6,267,531	4,798,520	3,667,134	Inventories			
Operating income (loss)	(5,655,842)	(4,655,353)	(3,607,359)	Prepaid expenses			
Israeli CPI linkage difference on principal of loans from stockholders	629	2,521	556	Government institution			
Exchange rate differences	(27,934)	(38,873)	25,282	Total current assets			
Change in fair value of warrants with down-round protection	289,626	149,092	6,559,758	Computers			
Interest expenses on credit from banks & other parties	(16,216)	(15,205)	2,189	Furniture & office equipment			
Loss on partial extinguishment of series A preferred stock & series A warrants	...	(1,284,354)	...	Leasehold improvements			
Financing income (expense), net	246,105	(1,186,819)	6,587,785	Property & equipment, gross			
Income (loss) for the period	(5,409,737)	(5,842,172)	2,980,426	Less: accumulated depreciation			
				Property & equipment, net			
				Long-term restricted cash			
				Funds in respect of employee rights upon retirement			
				Total assets			
				<b>Liabilities:</b>			
				Accounts payable			
				Employees & related institutions			
				Accrued expenses & other current liabilities			

Total current liabilities	2,348,191	1,510,432
Long-term loans from stockholders	162,034	160,314
Liability for employee rights upon retirement	176,719	174,137
Warrants with down-round protection	681,970	321,695
Total long-term liabilities	1,020,723	656,146
Total liabilities	3,368,914	2,166,578
Convertible preferred stock series A	221,152	221,152
Convertible preferred stock series B	6,715,844	6,715,844
Convertible preferred stock series C	3,104,466	...
Total temporary equity	10,041,462	6,936,996
Common stock	6,028	5,691
Additional paid in capital	24,586,142	22,309,742
Accumulated other comprehensive income (loss)	62,576	90,168
Retained earning (accumulated deficit)	(35,604,176)	(29,376,515)
Total stockholders' equity (deficit)	(10,949,430)	(6,970,914)

#### Auditor's Report:

The following is an excerpt from the Report of Independent Auditors, Fahn Kanne & Co. Grant Thornton Israel, as it appeared in Co.'s 2016 10-K:

"In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Integrity Applications, Inc. and subsidiary as of December 31, 2016, and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, 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, the Company has not yet generated material revenues from its operations to fund its activities and is therefore dependent upon external sources for financing its operations. As of December 31, 2016, the Company has incurred accumulated deficit of \$35,604,176, stockholder's deficit of \$10,949,430 and negative operating cash flows. These conditions along with other matters as set forth in Note 1, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regards to these matters are also

described in Note 1B. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty."

**Debt:** Dec. 31, 2016, \$162,034 (excluding current portion) long-term loans from stockholders.

**Line of Credit:** As of Dec. 31, 2016, Co.'s wholly-owned subsidiary, A.D. Integrity Applications, Ltd. and Co. had an unutilized credit line of approximately \$38,500 (NIS 150,000) with its Israeli bank. Borrowings under the line of credit are secured by funds on deposit with the bank at the time of borrowing, which generally must be sufficient to cover the principal amount of the borrowings in full.

**Capital Stock: 1. Integrity Applications Inc series A 5% convertible preferred; par \$ 0.001.**

AUTHORIZED—10,000,000 shs.

OUTSTANDING—Dec. 31, 2016, 376 shs; par \$ 0.001.

WARRANTS—491,006 shs.

OWNERSHIP—As of Mar. 27, 2017, Chunlin Chiang, James Waring and James H. Smith each owned 26.6% of Co.'s outstanding series A preferred stock.

PRIMARY EXCHANGE—Not Listed (NL).

**2. Integrity Applications Inc series B 5.5% convertible preferred; par \$ 0.001.**

AUTHORIZED—10,000,000 shs.

OUTSTANDING—Dec. 31, 2016, 15,031 shs; par \$ 0.001.

PRIVATE PLACEMENTS—(8,500 series B units) privately placed during Aug. 2014 through Dec. 31, 2014 for gross proceeds of \$8,500,000.

**3. Integrity Applications Inc series C 5.5% convertible preferred; par \$ 0.001.**

AUTHORIZED—10,000,000 shs.

OUTSTANDING—Dec. 31, 2016, 5,829 shs; par \$ 0.001.

PRIVATE PLACEMENTS—(506 units) privately placed on Nov. 30, 2016 for aggregate gross proceeds of \$506,000. Each unit consists of (a) one share of Co.'s Series C 5.5% Convertible Preferred Stock, (b) a five year warrant to purchase, at an exercise price of \$4.50 per share, up to such number of shares of Common Stock equal to 100% of the shares of Common Stock issuable upon conversion of such share of Preferred Stock (each a "Series C-1 Warrant") and (c) a five year warrant to purchase, at an exercise price of \$7.75 per share, up to such number of shares of Common Stock equal to 100% of the shares of Common Stock issuable upon conversion of such share of Preferred Stock (each a "Series C-2 Warrant").

(403.9 units) privately placed on Jan. 5, 2017. Each unit consists of (a) one share of Co.'s Series C 5.5% Convertible Preferred Stock, convertible into shares of Co.'s common stock (b) a five year warrant to purchase, at an exercise price of \$4.50 per share, up to such number of shares of Common Stock equal to 100% of the shares of Common Stock issuable upon conversion of such share of Preferred Stock (each a "Series C-1 Warrant") and (c) a five year warrant to purchase, at an exercise price of \$7.75 per share, up to such number of shares of Common Stock equal to 100% of the shares of Common Stock issuable upon conversion of such share of Preferred Stock (each a "Series C-2 Warrant").

share of Preferred Stock (each a "Series C-1 Warrant") and (c) a five year warrant to purchase, at an exercise price of \$7.75 per share, up to such number of shares of Common Stock equal to 100% of the shares of Common Stock issuable upon conversion of such share of Preferred Stock (each a "Series C-2 Warrant").

(2,560 units) privately placed on Mar. 8, 2017 for aggregate gross proceeds of \$2,560,000. Each unit consists of (a) one share of Co.'s Series C 5.5% Convertible Preferred Stock (b) a five year warrant to purchase, at an exercise price of \$4.50 per share, up to such number of shares of Common Stock equal to 100% of the shares of Common Stock issuable upon conversion of such share of Preferred Stock (each a "Series C-1 Warrant") and (c) a five year warrant to purchase, at an exercise price of \$7.75 per share, up to such number of shares of Common Stock equal to 100% of the shares of Common Stock issuable upon conversion of such share of Preferred Stock (each a "Series C-2 Warrant").

(1,551 units) privately placed on Apr. 28, 2017, for aggregate gross proceeds of \$1,551,000. Each unit consists of (a) one share of Co.'s Series C 5.5% Convertible Preferred Stock, convertible into shares of Co.'s common stock (b) a five year warrant to purchase, at an exercise price of \$4.50 per share, up to such number of shares of Common Stock equal to 100% of the shares of Common Stock issuable upon conversion of such share of Preferred Stock (each a "Series C-1 Warrant") and (c) a five year warrant to purchase, at an exercise price of \$7.75 per share, up to such number of shares of Common Stock equal to 100% of the shares of Common Stock issuable upon conversion of such share of Preferred Stock (each a "Series C-2 Warrant").

(660 units) privately placed on June 22, 2017 for gross proceeds of \$660,000. Each unit consists of (a) one share of Co.'s Series C 5.5% Convertible Preferred Stock, par value \$0.001 per share (the "Preferred Stock"), convertible into shares of Co.'s common stock, at an initial conversion price of \$4.50 per share, (b) a five year warrant to purchase, at an exercise price of \$4.50 per share, up to such number of shares of Common Stock equal to 100% of the shares of Common Stock issuable upon conversion of such share of Preferred Stock (each a "Series C-1 Warrant") and (c) a five year warrant to purchase, at an exercise price of \$7.75 per share, up to such number of shares of Common Stock equal to 100% of the shares of Common Stock issuable upon conversion of such share of Preferred Stock (each a "Series C-2 Warrant") and, together with the Series C-1 Warrants, collectively, the "Warrants").

**4. Integrity Applications Inc common; par \$ 0.001.**

AUTHORIZED—40,000,000 shs.

OUTSTANDING—Dec. 31, 2016, 6,026,527 shs; par \$ 0.001.

OPTIONS—Dec. 31, 2016, outstanding, 562,803; authorized for issuance, 1,000,000; available for grant, 437,197.

PRIMARY EXCHANGE—National Bulletin Board (NBB): IGAP.

MERGENT INDUSTRIAL 0545-0217 is published weekly online on Tuesdays and printed the last Friday of the month by Mergent, Inc., 444 Madison Ave., New York, NY 10022. The News Reports are part of the INDUSTRIAL Manual and provide periodic updates. Send address changes to MERGENT INDUSTRIAL, 580 Kingsley Park Drive, Fort Mill, SC 29715.

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