Report of Independent Auditors and
Financial Statements for

Helix BioMedix, Inc.

December 31, 2012

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders
Helix BioMedix, Inc.

Report on Financial Statements

We have audited the accompanying financial statements of Helix BioMedix, Inc., which comprise the balance sheet as of December 31, 2012, and the related statements of operations, stockholders' equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Helix BioMedix, Inc. as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Seattle, Washington
May 16, 2013

HELIX BIOMEDIX, INC.
BALANCE SHEET
DECEMBER 31, 2012

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 333,262
Accounts receivable	216,442
Accounts receivable, affiliated company	138,435
Inventory	267,919
Prepaid expenses and other current assets	38,543
Total current assets	994,601
PROPERTY AND EQUIPMENT, net	15,206
INTANGIBLE ASSETS, net	78,527
OTHER LONG TERM ASSETS	8,522
INVESTMENT IN AFFILIATED COMPANY	38,636
Total assets	$ 1,135,492
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable	$ 226,789
Accrued compensation and benefits	32,372
Accrued expenses	194,677
Deferred gross profit, affiliated company	84,121
Total current liabilities	537,959
LINE OF CREDIT, net of discount	448,716
DEFERRED RENT, non-current	32,179
Total liabilities	1,018,854
COMMITMENTS AND CONTINGENCIES (Note 14)	
STOCKHOLDERS' EQUITY	
Preferred stock, $0.001 par value, 25,000,000 shares authorized; no shares issued or outstanding	-
Common stock, $0.001 par value, 100,000,000 shares authorized; 165,734 shares issued; 164,715 shares outstanding	49,721
Additional paid-in capital	49,224,259
Accumulated deficit	(48,973,996)
Treasury stock, 1,019 shares	(183,346)
Total stockholders' equity	116,638
Total liabilities and stockholders' equity	$ 1,135,492

HELIX BIOMEDIX, INC.
STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2012

REVENUE	
Licensing fees	$ 922,438
Peptide and consumer product sales	744,480
Consumer product sales to affiliated company	348,746
Total revenue	2,015,664
COST OF REVENUE	
Cost of peptide and consumer product sales	467,733
Cost of consumer product sales to affiliated company	159,784
Total cost of revenue	627,517
GROSS PROFIT	1,388,147
OPERATING EXPENSES	
Research and development	389,489
Marketing and business development	1,106,722
General and administrative	1,516,973
Accounting, legal and professional fees	816,429
Depreciation and amortization	89,394
Total operating expenses	3,919,007
LOSS FROM OPERATIONS	(2,530,860)
OTHER INCOME (EXPENSE)	
Interest income	1,269
Interest expense	(163,586)
Equity in loss of affiliated company	(33,959)
Impairment loss in affiliated company	(177,660)
Change in value of option to purchase interest in affiliated company	(12,362)
Other income (expense)	(386,298)
NET LOSS	$ (2,917,158)

See accompanying notes.

	Preferred Stock		Common Stock		Additional		Treasury Stock		
	Number of Shares	Amount	Number of Shares*	Amount	Paid-In Capital	Accumulated Deficit	Number of Shares*	Amount	Stockholders' Equity
Balance at December 31, 2011	-	$ -	165,734	$ 49,721	$ 48,542,453	$ (46,056,838)	-	$ -	$ 2,535,336
Issuance of Common stock warrants	-	-	-	-	464,870	-	-	-	464,870
Repurchase of Common stock	-	-	-	-	-	-	(1,019)	(183,346)	(183,346)
Stock-based compensation	-	-	-	-	216,936	-	-	-	216,936
Net loss	-	-	-	-	-	(2,917,158)	-	-	(2,917,158)
Balance at December 31, 2012	-	$ -	165,734	$ 49,721	$ 49,224,259	$ (48,973,996)	(1,019)	$ (183,346)	$ 116,638

* As adjusted

HELIX BIOMEDIX, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss	$ (2,917,158)
Adjustments to reconcile net loss to net cash used in operating activities	
Depreciation	21,624
Amortization	67,770
Stock-based compensation expense	216,936
Amortization of debt discount	163,586
Equity in loss of affiliated company	33,959
Impairment loss in affiliated company	177,660
Change in valuation of option to purchase interest in affiliated company	12,362
Changes in operating assets and liabilities	
Accounts receivable	23,331
Accounts receivable from affiliated company	62,500
Inventory	95,950
Prepaid expenses and other current assets	26,040
Accounts payable	101,465
Accrued compensation and benefits	(55,487)
Accrued liabilities	(47,768)
Deferred gross profit, affiliated company	(50,721)
Net cash used in operating activities	(2,067,951)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(10,732)
Investment in affiliated company	(27,000)
Net cash used in investing activities	(37,732)
CASH FLOWS FROM FINANCING ACTIVITIES	
Borrowings from line of credit	750,000
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,355,683)
CASH AND CASH EQUIVALENTS	
Beginning of year	1,688,945
End of year	$ 333,262
SUPPLEMENTAL CASH FLOW INFORMATION	
Cash paid for taxes	$ -
NON-CASH INVESTING AND FINANCING ACTIVITIES	
Noncash issuance of common stock warrants	$ 464,870

See accompanying notes.

Note 1 - Description of the Business and Summary of Significant Accounting Policies

The Business - Helix BioMedix, Inc. (the Company), a Delaware corporation, is a biopharmaceutical company with an extensive proprietary library of structurally diverse bioactive peptides and patents covering hundreds of thousands of peptide sequences. The Company's mission is to enrich clinical practice and the patient/consumer experience by developing and commercializing topically applied products which offer the benefits of its advanced bioactive small molecule and peptide technologies. The Company's vision is to be recognized as the world leader in the identification, qualification and commercialization of natural and synthetic peptides.

On December 28, 2012, the Company effected a 300 for 1 split of all outstanding shares of common stock. The reverse stock split resulted in a shareholder count of 304 on December 31, 2012. Effective December 28, 2012, the Company was no longer required to file annual and interim financial reports with the Securities and Exchange Commission as a public registrant.

The Company's business strategy is to develop its peptide and small molecule portfolio to derive revenue from a broad base of opportunities including licensing to third parties rights to use select proprietary peptides in specific fields of application and commercializing its own branded products. Over the longer term, the Company intends to pursue applications for products using its technology in medical devices and pharmaceutical preparations. The Company has developed numerous peptides with unique sequences for use in the following two areas of application:

- Consumer skin care products - the Company has developed a range of peptides and small molecule technologies capable of improving different aspects of the skin's appearance, texture, tone and barrier function and are marketing these peptides as innovative ingredients for cosmetic use, and

- Prescription (Rx) products - certain of the Company's peptides have demonstrated promising results in the areas of infection control, wound healing and immune modulation and are being developed for Rx applications.

The Company's Rx focus is on prescription-only topical preparations that would be subject to a shorter regulatory approval process under Section 510(k) of the Food, Drug and Cosmetic Act (510(k) devices). The Company continues to explore possible sources of funding to support further in-house development work on its pharmaceutical programs, which management believes will enhance potential partnership opportunities with pharmaceutical companies.

Although the Company has made progress in licensing its peptide technology and implementing its intellectual property into revenue-generating products for a wide range of dermal applications, the Company's cost to conduct its business development efforts and other operating activities has exceeded its revenues each year since inception. Additionally, the Company's net cash used in operations has exceeded its cash generated from operations for each year since its inception. The Company has financed its operations largely through the private sale of equity and debt securities.

Note 1 - Description of the Business and Summary of Significant Accounting Policies (Continued)

On March 9, 2012, the Company entered into an LOC Agreement (LOC Agreement) with Frank T. Nickell, who beneficially owns approximately 40% of the Company's outstanding common stock, pursuant to which Mr. Nickell established an irrevocable standby letter of credit by JPMorgan Chase Bank, N.A. (JPMorgan) in favor of the Company in the principal amount of $2.0 million (LOC). The LOC expires on July 1, 2013 but automatically renews until July 1, 2014 unless terminated by JPMorgan at least 14 days prior to the end of the current term, at which time the Company may draw up to the balance remaining on the LOC. Amounts not yet drawn under the LOC accrue interest at the rate of 0.75% per annum.

Based on the current status of the Company's operating and product commercialization plans, management estimates that the Company's existing cash and cash equivalents together with the letter of credit will be sufficient to fund its operations, continue with work towards its Rx product development and support the expansion of its consumer program through the next twelve months. The Company will need substantial additional capital in order to maintain the current level of operations beyond the next 12 months, broaden the commercialization of its technology and advance its pharmaceutical programs. Accordingly, the Company will need to raise additional funding, which may include debt and/or equity financing. However, there is no assurance that additional funding will be available on favorable terms, if at all. If the Company is unable to obtain the necessary additional funding, management would be required to severely reduce the scope of its operations, which would significantly impede its ability to proceed with current operational plans and could lead to the discontinuation of its business.

The amount of capital the Company will need in the future will depend on many factors, including capital expenditures and hiring plans to accommodate future growth, research and development plans, future demand for the Company's products and technology, and general economic conditions.

In April 2013, the Company received an additional $500,000 of financing from a stockholder who exercised 6,667 warrants to purchase shares of the Company's common stock at an exercise price of $75.00 per share. The Company received additional financing of $700,000 through the purchase of 3,890 shares of common stock at an issuance price of $180.00 per share. In connection with the issuance of the shares of common, the Company issued 1,945 common stock warrants.

Note 1 - Description of the Business and Summary of Significant Accounting Policies (Continued)

Basis of Presentation and Preparation - The preparation of the Company's financial statements in conformity with generally accepted accounting principles in the United States (U.S. GAAP) requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the balance sheets and the reported amounts of revenue and expenses during the reporting periods. In the opinion of management, the accompanying financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the Company's financial position and its results of operations and cash flows for the periods indicated. Significant items subject to such estimates and assumptions include, but are not limited to, the carrying amount of investments, property and equipment, intangibles; valuation allowances for receivables, inventories, deferred income tax assets, and valuation of share-based compensation and option to purchase the remaining interest in an affiliated company. Actual results could differ from those estimates.

Cash and Cash Equivalents - The Company considers all highly liquid debt instruments with an original maturity of 90 days or less at the time of purchase to be cash equivalents. Cash and cash equivalents consisted of demand deposits and money market funds and are stated at cost, which approximates fair value. The Company deposits its cash and cash equivalents with a high credit quality financial institution. The Company regularly maintains cash balances in excess of federally insured limits. To date, the Company has not experienced any losses on its cash and cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts - Accounts receivable are shown at their net realizable value which approximates their fair value. The Company does not currently maintain an allowance for doubtful accounts based on the Company's management's consideration of historical collection experience and the characteristics of existing accounts. The Company has not had any accounts receivable allowances or write-offs for any period presented.

Inventory - Inventory consists of peptides and consumer product finished goods and work in process. Work in process includes inventory at the Company's manufacturer. Inventory is stated at the lower of cost or market. The Company regularly monitors inventory quantities on hand and records write-downs or write-offs for any excess, obsolescence and shrinkage based primarily on its sales forecast and production requirements.

Property and Equipment - Property and equipment, which includes laboratory equipment, furniture and leasehold improvements, are stated at cost. Depreciation of equipment is provided using the straight-line basis over three to five years. Leasehold improvements are amortized over the lesser of the economic useful lives of the improvements or the term of the related lease. Repair and maintenance costs are expensed as incurred.

Note 1 - Description of the Business and Summary of Significant Accounting Policies (Continued)

Intangible Assets - Acquired patents and certain costs for issued patents, consisting primarily of legal fees, are capitalized. Patents are amortized on the straight line basis over the useful life of the patents, generally thirteen years.

Licensing agreements and antimicrobial technology, which was purchased in conjunction with certain patents, has been capitalized at the basis of the debt issued for it. Licensing agreements and antimicrobial technology are amortized ratably over seventeen years. The Company's antimicrobial technology has been fully amortized.

Impairment of Long-Lived Assets - The Company reviews long-lived assets including property and equipment and intangible assets for possible impairment whenever significant events or changes in circumstances, including changes in the Company's business strategy and plans, indicate that impairment may have occurred. An impairment is indicated when the sum of the expected future undiscounted net cash flows identifiable to that asset or asset group is less than its carrying value. Impairment losses are determined from actual or estimated fair values, which are based on market values or projections of discounted net cash flows, as appropriate. No impairment of long-lived assets has been recognized in the accompanying financial statements.

Investment in Affiliated Company - The Company uses the equity method to account for its investment in an affiliated company in which it owns a 30% interest and has significant influence. The excess of the investment's carrying value over the Company's share of the fair value of the investee's net assets was attributable to goodwill. This equity-method goodwill is not amortized, but rather, the investment is analyzed for impairment. The Company adjusts the carrying value of this investment at each reporting period to recognize its share of the affiliated company's net earnings or losses and distributions, if any. During the Company's impairment analysis, they determined their expected future cash flows from their investment in affiliated company were less than the carrying value at December 31, 2012. As a result, the Company recognized an impairment loss of $177,660 during the year ended December 31, 2012.

Deferred Gross Profit, Affiliated Company - Deferred gross profit, affiliated company, relates to sales of products to an affiliated company which have not yet been resold to third parties, net of costs of such products.

Note 1 - Description of the Business and Summary of Significant Accounting Policies (Continued)

Revenue Recognition - The Company derives its revenue from technology licenses, sales of peptides and consumer products, and, until September 2009, administrative services provided to a related party. Revenue from technology licenses may include up-front payments and royalties from third-party product manufacturing and sales.

- Licensing Fees - The Company recognizes up-front payments when persuasive evidence of an agreement exists, delivery has occurred or services have been performed, the price is fixed and determinable and collection is reasonably assured. The Company recognizes royalty revenue in the period the royalty is earned based on actual reports or estimates received from licensees.

- Peptide and Consumer Product Sales - The Company recognizes revenue from sales of its peptides and skin care products when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collection is reasonably assured.

- Consumer Product Sales to Affiliated Company - The Company sells certain skin care products under private labels to an affiliated company and recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, collection is reasonably assured and the products have been resold to third parties or otherwise used.

Revenues are recorded net of related sales taxes. Sales tax amounts collected from customers are included in accrued expenses.

Shipping and Handling Costs - The Company records shipping and handling costs billed to customers as revenue. Freight costs associated with shipping goods to customers are recorded as a cost of revenue. Shipping and handling costs for all periods presented were immaterial.

Advertising Expense - The Company expenses advertising costs as incurred. Advertising expenses for the year ended December 31, 2012 were approximately $320,000.

Research and Development - Research and development costs are expensed as incurred. Research and development expenses include, but are not limited to, payroll and personnel expenses, lab supplies and expenses, and external trials and studies. In instances where the Company enters into agreements with third parties for research and development activities, which may include personnel costs, supplies and other costs associated with such collaborative agreements, the Company expenses these items as incurred.

Note 1 - Description of the Business and Summary of Significant Accounting Policies (Continued)

Income Taxes - The Company recognizes deferred tax assets and liabilities for the expected future income tax consequences of transactions that have been included in the financial statements or tax returns. The Company measures deferred tax assets and liabilities based on the differences between the financial reporting and the tax bases of the assets and liabilities using enacted tax rates in effect in the years in which those differences are expected to be recovered or settled. The Company records an allowance against deferred tax assets when it is more likely than not that such tax benefits will not be realized. Due to the uncertainty regarding the Company's profitability, the future tax benefits of its losses have been fully reserved for and no net benefit has been recorded in the financial statements.

The Company applies a "more-likely-than-not" threshold for the recognition and derecognition of tax positions taken or expected to be taken in a tax return. The evaluation of uncertain tax positions is based on factors including, but not limited to, changes in tax laws, effectively sustained issues under audit and changes in facts or circumstances surrounding a tax position.

Fair Value of Financial Instruments - The reported amounts of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and other current liabilities, approximate fair values due to the short-term nature of these instruments.

Stock-Based Compensation - The Company measures stock-based compensation expense for employee awards at the grant date based on the fair value of the award and recognizes such expense on a straight-line basis over the requisite service period, which is generally the vesting period. Compensation expense is recognized only for those options expected to vest. The Company recognizes the fair value of stock options and warrants issued to non-employees over the applicable performance period.

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options. The determination of the fair value of stock-based awards on the date of grant using an option pricing model is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables. These variables include management's estimated stock price volatility over the expected term of the awards, estimated employee stock option exercise behaviors, the risk-free interest rate, and expected dividends.

Subsequent Events - Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the financial statements are issued. The Company evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through May 16, 2013, the day the financial statements were available for issuance.

Note 2 - Inventory

Inventory consisted of the following at December 31, 2012:

Work in process	$ 126,021
Finished goods	141,898
	$ 267,919

Note 3 - Property and Equipment

Property and equipment consisted of the following at December 31, 2012:

Machinery and equipment	$ 520,716
Website development costs	63,175
Furniture and fixtures	51,630
Leasehold improvements	5,519
	641,040
Less accumulated depreciation	(625,834)
Property and equipment, net	$ 15,206

Aggregate depreciation expense for property and equipment was $21,624 for the year ended December 31, 2012.

Note 4 - Identifiable Intangible Assets

Identifiable intangible assets, subject to amortization, were as follows at December 31, 2012:

	Weighted Average Amortization Period (in years)	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, net
Antimicrobial technology	17	$ 222,187	$ (222,187)	$ -
Licensing agreements	17	61,391	(39,545)	21,846
Patents pending and approved	13	834,301	(777,620)	56,681
		$ 1,117,879	$ (1,039,352)	$ 78,527

Note 4 - Identifiable Intangible Assets (Continued)

Amortization expense related to identifiable intangible assets was $67,770 for the year ended December 31, 2012. Scheduled amortization charges from identifiable intangible assets as of December 31, 2012 were as follows:

Year	Total
2013	$ 41,410
2014	8,649
2015	8,649
2016	8,649
2017	6,758
Thereafter	4,412
	$ 78,527

Note 5 - Investment in Affiliated Company

Membership Interest Agreement - On July 1, 2010, the Company entered into a Membership Interest Agreement (NuGlow Membership Agreement) in NuGlow Cosmaceuticals, LLC (NuGlow), a direct-response company selling specialty skin care products, in exchange for a capital contribution of $350,000 (Initial Contribution). In connection with NuGlow's capital raise of $140,000 in September 2011 (2011 Contribution) and April 2012, the Company contributed an additional $42,000 and $27,000, respectively, to maintain its 30% interest in NuGlow.

Amended and Restated Operating Agreement - On July 1, 2010, the Company also entered into an Amended and Restated Operating Agreement of NuGlow (NuGlow Operating Agreement), which was amended on September 1, 2011 to stipulate the following terms:

(i) Camden shall manage NuGlow;

(ii) any profit distribution by NuGlow is to be paid in the following order: (a) 30% to the Company and 70% to NuGlow's other member until the 2011 Contribution is fully repaid; (b) 70% to the Company and 30% to NuGlow's other member until the Company's Initial Contribution is fully repaid; and (c) ratably among members in accordance with each member's percentage interest;

(iii) upon a dissolution or liquidation, all of NuGlow's liquidation proceeds is to be paid in the following order: (a) 30% to the Company and 70% to NuGlow's other member until the 2011 Contribution is fully repaid; (b) 100% to the Company until the Company's Initial Contribution is fully repaid; and (c) ratably among members in accordance with each member's percentage interest;

Note 5 - Investment in Affiliated Company (Continued)

(iv) NuGlow may not take certain actions or engage in certain transactions without the Company's prior written consent, including, without limitation, the incurrence of indebtedness, the admission of additional members, the merger or sale of NuGlow or its assets, or the dissolution of NuGlow;

(v) NuGlow shall establish a product oversight committee consisting of two designees of the Company and one designee of Camden to oversee certain matters related to NuGlow product management;

(vi) transfers of NuGlow membership interests shall be subject to certain restrictions, including, without limitation, a right of first refusal by NuGlow and its members;

(vii) upon certain circumstances, the Company has the right to purchase all of Camden's membership interest in NuGlow (Purchase Option), and

(viii) if the Company does not exercise the Purchase Option, or at any time before the Company exercises its Purchase Option upon a change of control of the Company or a sale of substantially all of its assets or upon the Company's insolvency or bankruptcy, Camden has the right to purchase all of the Company's membership interest in NuGlow.

The Company's cumulative investment in NuGlow is accounted for as an equity investment and is adjusted at each reporting period to reflect the Company's share of NuGlow's net earnings, losses, contributions and any profit distributions. The Company has also elected to account for the Purchase Option at fair value on the balance sheet with changes in value recognized in the statement of operations over the life of the option. Additionally, at each reporting period, the Company assesses its investment in NuGlow to determine whether events or changes in circumstances indicate that the carrying amount may not be recoverable. The primary factors the Company considers in its determination are NuGlow's financial condition and operating performance. If the decline in value is deemed to be other than temporary, the Company would recognize an impairment loss.

For the year ended December 31, 2012, the Company recorded a loss of $33,959, to "Equity in loss of affiliated company", which reflected its share of NuGlow's net loss during those periods. Additionally, the Company recorded an impairment loss of $177,660 during the year ended December 31, 2012. The carrying value of the Company's investment in NuGlow was $38,636 at December 31, 2012.

Note 5 - Investment in Affiliated Company (Continued)

NuGlow's condensed balance sheet at December 31, 2012 and statement of operations for the year ended December 31, 2012 are summarized below:

NuGlow's Condensed Balance Sheets	(Unaudited)
Assets	
Cash	$ 200
Accounts receivable, net	5,582
Inventory	191,866
Prepaid expenses and other current assets	16,430
Total assets	$ 214,078
Liabilities and members' equity	
Accounts payable and current liabilities	$ 214,315
Members' equity	604,661
Accumulated deficit	(604,898)
Total liabilities and members' equity	$ 214,078

NuGlow's Condensed Statements of Operations	(Unaudited)
Revenue	$ 817,391
Cost of goods sold	(367,752)
Operating expenses	(562,837)
Net loss	$ (113,198)

Supply Agreement - The Company and NuGlow entered into a Supply Agreement dated as of July 1, 2010 and amended as of September 1, 2011, pursuant to which NuGlow agreed to purchase from the Company for resale certain of the Company's proprietary skincare products for beauty and cosmetic and over-the-counter uses. The term of the Supply Agreement continues until June 30, 2013 and automatically renews for successive one-year terms thereafter unless earlier terminated as provided therein.

Note 6 - Deferred Gross Profit, Affiliated Company

Deferred gross profit from affiliated company consisted of the following as of December 31, 2012:

Deferred revenue, affiliated company	$ 156,472
Deferred cost of revenue, affiliated company	72,351
Deferred gross profit, affiliated company	$ 84,121

Note 7 - Line of Credit

Letter of Credit - On March 9, 2012, the Company entered into an LOC Agreement with Frank T. Nickell, who beneficially owns approximately 40% of the Company's outstanding common stock, pursuant to which Mr. Nickell established an irrevocable standby letter of credit by JPMorgan Chase Bank, N.A. (JPMorgan) in favor of the Company in the principal amount of $2.0 million (LOC). The LOC expires on July 1, 2013 but automatically renews until July 1, 2014 unless terminated by JPMorgan at least 14 days prior to the end of the current term, at which time the Company may draw up to the balance remaining on the LOC. Amounts not yet drawn under the LOC accrue interest at the rate of 0.75% per annum and are due and payable on or before July 1, 2014. At December 31, 2012, the outstanding balance on the Company's LOC was $750,000.

Pursuant to the LOC Agreement, the Company agreed to use commercially reasonable efforts to consummate an equity financing prior to the termination date of the LOC in which it would sell and issue shares of its common stock at a price per share of at least $0.60 for aggregate proceeds of at least $3.0 million, upon consummation of which all amounts outstanding under the LOC shall be immediately repaid. In addition, the Company issued to Mr. Nickell a five-year fully vested warrant to purchase 2,000,000 shares of the Company's common stock at an exercise price of $0.25 per share and agreed to reimburse Mr. Nickell for his reasonable expenses in connection with the LOC, including, without limitation, any interest accrued and payable by Mr. Nickell in connection with the LOC.

Note 8 - Fair Value of Financial Instruments

The inputs used to measure fair value are summarized in the three broad levels listed below:

Level 1 Quoted prices in active markets for identical securities;

Level 2 Other significant observable inputs (including quoted prices in active markets for similar securities), and

Level 3 Significant unobservable inputs (including the Company's own assumptions in determining fair value of investments).

Note 8 - Fair Value of Financial Instruments (Continued)

The following tables set forth by level, within the fair value hierarchy, financial assets and liabilities accounted for at fair value as of December 31, 2012. As required by Accounting Standard Codification (ASC) 820-10, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	December 31, 2012	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 35,369	$ 35,369	$ -	$ -

Option to Purchase Interest in Affiliated Company - The Company estimated the fair value of this asset to be $0 at December 31, 2012, using the multiple of earnings method based on a number of factors and assumptions regarding the affiliated company's potential future revenue and projected earnings before interest, tax, depreciation and amortization (EBITDA). A decrease of $12,362 in fair value was recorded in the statement of operations for the year ended December 31, 2012.

Financial Instruments - The carrying amount of the Company's cash, accounts receivable, accounts payable, accrued compensation and benefits, and accrued expenses approximated their estimated fair values at December 31, 2012 because of the short-term nature of these instruments.

Preferred Stock - The Company's board of directors (the Board) may authorize the issuance of preferred stock from time to time in one or more series and each series shall have such voting, redemption, liquidation and dividend rights as the Board may deem advisable. As of December 31, 2012, no preferred series shares had been designated by the Board.

Stockholder Rights Agreement - On August 15, 2003, the Board approved the adoption of a Stockholder Rights Agreement pursuant to which all of the Company's stockholders as of September 15, 2003 (the Record Date) received rights to purchase shares of a new series of preferred stock. The rights will be distributed as a non-taxable dividend and will expire ten years from the Record Date. The rights will be exercisable only if a person or group acquires 15 percent or more of the Company's common stock or announces a tender offer for 15 percent or more of the common stock. If a person acquires 15 percent or more of common stock, all rights holders, except the buyer, will be entitled to acquire the Company's common stock at a discount. The effect will be to discourage acquisitions of more than 15 percent of the Company's common stock without negotiations with the Board.

Note 8 - Fair Value of Financial Instruments (Continued)

Common Stock Purchase Warrants - Information concerning outstanding common stock purchase warrants is set forth below:

	Number	Price Range	Weighted Average
Warrants issued to employees and non-employees for services	200	$75.00 - $450.00	$ 138.00
Warrants issued in connection with 2002 and 2003 equity financings	1,351	$ 300.00	$ 300.00
Warrants issued in connection with 2009 convertible debt financing	475	$ 300.00	$ 300.00
Warrants issued in connection with 2012 line of credit	6,667	$ 75.00	$ 75.00
Total outstanding warrants	8,693	$75.00 - $450.00	$ 123.00

During the year ended December 31, 2012, warrants to purchase an aggregate of 2,061 shares of the Company's common stock expired and were therefore cancelled.

On March 9, 2012, in connection with the establishment of a letter of credit (see Note 7), the Company issued to its largest stockholder and guarantor of the letter of credit a five-year fully vested warrant to purchase 6,667 shares of the Company's common stock at an exercise price of $75.00 per share. The warrants have an exercise price of $75.00 per share and expire in March 2017. The warrants have been recorded at a fair value of $464,870 as a discount on the Company's line of credit, which is accreted to interest expense over the term of the line of credit. The Company recognized $163,586 in non-cash interest expense associated with the accretion of the debt discount in 2012.

Note 9 - Equity

Preferred Stock - The Company is authorized to issue 25,000,000 shares of preferred stock with $0.001 par value. As of December 31, 2012, the Company had zero shares of preferred stock issued or outstanding.

Common Stock - The Company is authorized to issue 100,000,000 shares of common stock with $0.001 par value. As of December 31, 2012, the Company had 164,715 shares of common stock issued and outstanding. On December 28, 2012, the Company effected a 300-1 split of all outstanding shares of common stock. The reverse stock split resulted in a shareholder count of 304 on December 31, 2012.

Treasury Stock - In December 2012, the Company repurchased 1,019 shares of its outstanding common stock at a total cost of $183,346. At December 31, 2012, the shares are held as treasury shares within the Company's statement of stockholders' equity.

Note 10 - Stock-Based Compensation

2011 Stock Option Plan - On February 10, 2011, the Company's board of directors adopted, and on May 25, 2011, the Company's stockholders approved, the Helix BioMedix, Inc. 2011 Stock Option Plan (the 2011 Plan). The 2011 Plan provides for the grant of incentive stock options to employees and non-statutory stock options to employees, non-employee directors and consultants. The 2011 Plan is administered by the board of directors, which has the authority to select the individuals to whom awards are to be granted, the number of awards granted, and the vesting schedule. A total of 40,000 shares of common stock are reserved for issuance under the 2011 Plan. Options granted under the 2011 Plan to employees generally vest over a three-year period with 1/3 of the shares vesting after one year from the date of grant and 1/36 of the shares vesting monthly thereafter. Option awards to non-employee directors may vest fully upon grant or quarterly over one year. All option awards have a maximum term of ten years and exercise prices equal to the closing market price of the Company's common stock on the grant date.

2000 Stock Option Plan - In 2000, the Company's stockholders approved the Helix BioMedix 2000 Stock Option Plan (the 2000 Plan). The 2000 Plan provided for the granting of incentive stock options to employees and nonqualified stock options to employees, directors and consultants. Options granted under the 2000 Plan generally became exercisable over periods ranging from one to three years, had a maximum term of ten years and exercise prices equal to the closing market price of the Company's common stock on the grant date. Effective November 6, 2010, additional option awards under the 2000 Plan were discontinued. Remaining authorized shares under the 2000 Plan that were not subject to outstanding awards as of November 6, 2010 were then cancelled. The 2000 Plan will remain in effect as to any outstanding options granted prior to November 6, 2010.

Stock Option Activities - During the years ended December 31, 2012, the Company granted options to purchase an aggregate of 4,000 shares of common stock, with a weighted-average grant date fair value of $70.00. Fair value for options granted was calculated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	0.87 - 1.14%
Expected dividend yield	0%
Expected term in years	5.0 - 6.0
Expected volatility	147 - 157%

Note 10 - Stock-Based Compensation (Continued)

The risk free rate is based on the implied yield available on U.S. Treasury zero–coupon issues with a remaining term equal to the expected term of options issued. The Company does not anticipate declaring dividends in the foreseeable future. For the year ended December 31, 2012, the Company calculated expected volatility based on the annualized daily historical volatility of the Company's stock price commensurate with the expected term of the option and other factors, including peer company data. The Company estimates the expected term as the average of the vesting period and the contractual term. The Company will continue to use this method of estimation until it has sufficient historical data to provide reasonable estimates of expected lives of stock options. The Company's stock price volatility and option term involves management's best estimates at that time, both of which impact the fair value of the option calculated under the Black-Scholes pricing model and, ultimately, the expense that will be recognized over the life of the option. The Company recognizes compensation expense for only the portion of options that is expected to vest. Therefore, the Company applies an estimated forfeiture rate that is derived from historical employee termination behavior. Forfeiture rates are revised in subsequent periods if actual forfeitures differ from those estimates.

The amount of stock-based compensation expense recognized for the years ended December 31, 2012 related to stock options was $216,936.

As of December 31, 2012, the total unrecognized stock-based compensation related to non-vested stock options was $148,312, which is expected to be recognized over a weighted-average period of approximately 2.0 years. A summary of the Company's stock-based compensation expense for the year ended December 31, 2012, is summarized as follows:

Research and development	$ 16,585
Marketing and business development	71,073
General and administrative	129,278
Total stock-based compensation	$ 216,936

Note 10 - Stock-Based Compensation (Continued)

A summary of the Company's stock option activity for the year ended December 31, 2012 is presented in the following table:

	Shares Subject to Options	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life
Outstanding, December 31, 2011	10,881	194.69	4.28
Granted	4,000	75.00	9.13
Exercised	-	-	-
Forfeited	-	-	-
Expired	(1,800)	273	-
Outstanding, December 31, 2012	13,081	147.38	5.56
Exercisable, December 31, 2012	10,263	168.00	4.61
Vested and expected to vest, December 31, 2012	13,081	147.38	5.56

As of December 31, 2012, there were 40,000 shares of common stock reserved for issuance pursuant to the 2011 Plan, of which 38,643 shares remained available for grants. Additional information regarding options outstanding as of December 31, 2012 under the 2000 Plan and the 2011 Plan is as follows:

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
\$45.00 - \$57.00	373	7.19	\$ 48.00	259	\$ 48.00
\$75.00	4,167	8.90	\$ 75.00	1,875	\$ 75.00
\$78.00 - \$108.00	2,662	6.22	\$ 99.00	2,251	\$ 99.00
\$111.00 - \$171.00	2,681	3.67	\$ 144.00	2,861	\$ 144.00
\$210.00 - \$540.00	3,018	1.96	\$ 306.00	3,018	\$ 306.00

Note 11 - Employee Savings Plan

The Company offers a 401(k) plan to all of its employees. Company matching contributions are determined in accordance with the provisions of the Company's contribution plan. During the year ended December 31, 2012, employer-matching contributions totaled $32,770.

Note 12 - Concentration of Risks

A significant portion of the Company's revenue and accounts receivable are concentrated with a limited number of customers. The following individual customers accounted for 10% or more of revenue for the year ended December 31, 2012:

Customer A	42%
Customer B	27%
Customer C	17%

At December 31, 2012, the following individual customers accounted for 10% or more of net accounts receivable:

Customer A	22%
Customer B	59%

Note 13 - Income Taxes

Deferred income taxes reflect the net tax effects of (1) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (2) operating losses and tax credit carryforwards. The tax effects of significant components comprising the Company's deferred taxes as of December 31, 2012 were as follows:

Gross deferred tax assets (liabilities):	
Net operating loss carryforwards	$ 12,358,746
Stock compensation	588,084
Accrued expenses	12,231
Fixed and intangible assets	52,350
Deferred gross profit, related party	28,601
Other	66,377
Gross deferred tax assets	13,106,389
Less valuation allowance	(13,106,389)
Net deferred tax assets	-
Deferred tax liabilities	-
Net deferred tax assets/liabilities	$ -

Note 13 - Income Taxes (Continued)

ASC 740 requires that the tax benefit of net operating losses, temporary differences and credit carryforwards be recorded as an asset to the extent that management assesses that realization is "more likely than not." Realization of the future tax benefits is dependent on the Company's ability to generate sufficient taxable income within the carryforward period. Because of the Company's history of operating losses, management believes that recognition of the deferred tax assets arising from the above-mentioned future tax benefits is currently not likely to be realized and, accordingly, has provided a full valuation allowance at December 31, 2012 for financial reporting purposes. The Company's valuation allowance for deferred tax assets increased by $846,122 during the year ended December 31, 2012. The increase in the deferred tax assets in 2012 were primarily the result of increasing net operating loss carryforwards during the year.

At December 31, 2012, the Company had gross unrecognized tax benefits of $1,359,400. The decrease in unrecognized tax benefits during 2012 was due to unrecognized research and development tax credits expiring unutilized. The accrued interest and penalties on unrecognized tax benefits were $0 at December 31, 2012.

The total amount of unrecognized tax benefits that would, if recognized, affect the effective tax rate is $1,359,400.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at January 1, 2012	$ 1,364,600
Reductions based on tax positions taken during a prior period	(5,200)
Balance at December 31, 2012	$ 1,359,400

The Company's operating losses and tax credit carryforwards as of December 31, 2012 are as follows:

	Amount	Expiration Years
Net operating losses, federal	$ 40,125,232	2018-2032
Net operating losses, state	$ 180,566	2030-2032
Tax credits, federal	$ 65,014	2018-2021

The Company's ability to utilize the carryforwards may be limited in the event of an ownership change as defined in current income tax regulations.

Note 13 - Income Taxes (Continued)

The effective tax rate of the Company's provision (benefit) for income taxes differs from the federal statutory rate as follows:

Statutory rate	34.00%
State tax	0.07%
Change in valuation allowance	(29.00%)
Permanent items	(2.16%)
Expiration of net operating loss and research and development credit carryforward	(2.66%)
Other	(0.25%)
Total	(0.00%)

The Company files income tax returns in the U.S. All of the Company's tax returns for years with unexpired net operating loss carryforwards may be subject to examination in the event that the Company utilizes the net operating losses from those years in its future tax returns.

Note 14 - Commitments and Contingencies

Leases - The Company leases office space at its headquarters in Bothell, Washington, under terms of an operating lease that expires in June 2018. Total rent expense for the year ended December 31, 2012 was $110,687. Future minimum payments due under this lease agreement are as follows as of December 31:

2013	$ 73,655
2014	82,651
2015	85,131
2016	87,685
2017	90,315
Thereafter	45,825
	$ 465,262