

DONEGAL GROUP INC
Form 10-Q
November 06, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from _____ to _____.

Commission file number 0-15341

Donegal Group Inc.

(Exact name of registrant as specified in its charter)

Delaware **23-2424711**
(State or other jurisdiction of **(I.R.S. Employer**
incorporation or organization) **Identification No.)**
1195 River Road, P.O. Box 302, Marietta, PA 17547
(Address of principal executive offices) (Zip code)
(717) 426-1931
(Registrant's telephone number, including area code)
Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 22,498,383 shares of Class A Common Stock, par value \$0.01 per share, and 5,576,775 shares of Class B Common Stock, par value \$0.01 per share, outstanding on October 31, 2015.

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DONEGAL GROUP INC.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****Donegal Group Inc. and Subsidiaries****Consolidated Balance Sheets**

	September 30, 2015	December 31, 2014
	(Unaudited)	
<u>Assets</u>		
Investments		
Fixed maturities		
Held to maturity, at amortized cost	\$ 303,409,930	\$ 307,391,699
Available for sale, at fair value	483,589,669	435,149,784
Equity securities, available for sale, at fair value	35,835,920	30,822,022
Investment in affiliates	40,110,080	39,283,924
Short-term investments, at cost, which approximates fair value	24,596,219	20,293,648
Total investments	887,541,818	832,941,077
Cash	24,927,652	35,578,509
Accrued investment income	6,681,098	5,751,376
Premiums receivable	146,608,317	133,306,961
Reinsurance receivable	259,890,449	253,635,890
Deferred policy acquisition costs	53,510,659	48,298,608
Deferred tax asset, net	18,301,648	17,146,303
Prepaid reinsurance premiums	117,503,124	115,871,783
Property and equipment, net	7,142,932	7,668,340
Accounts receivable - securities	258,030	
Federal income taxes receivable	338,628	581,477
Goodwill	5,625,354	5,625,354
Other intangible assets	958,010	958,010
Other	1,568,730	1,290,956
Total assets	\$ 1,530,856,449	\$ 1,458,654,644
<u>Liabilities and Stockholders Equity</u>		
<u>Liabilities</u>		
Unpaid losses and loss expenses	\$ 569,146,468	\$ 538,258,406
Unearned premiums	441,318,285	408,646,363
Accrued expenses	18,827,797	19,429,627
Reinsurance balances payable	3,940,824	7,841,172
Borrowings under lines of credit	48,000,000	53,500,000
Cash dividends declared		3,467,273
Subordinated debentures	5,000,000	5,000,000

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Due to affiliate	753,996	2,409,347
Drafts payable	669,910	1,950,765
Other	1,632,116	2,017,048
Total liabilities	1,089,289,396	1,042,520,001
Stockholders Equity		
Preferred stock, \$.01 par value, authorized 2,000,000 shares; none issued		
Class A common stock, \$.01 par value, authorized 40,000,000 shares, issued 23,446,230 and 22,389,369 shares and outstanding 22,443,642 and 21,447,661 shares	234,463	223,894
Class B common stock, \$.01 par value, authorized 10,000,000 shares, issued 5,649,240 shares and outstanding 5,576,775 shares	56,492	56,492
Additional paid-in capital	218,082,040	200,348,783
Accumulated other comprehensive income	2,789,016	5,353,269
Retained earnings	234,411,399	223,253,887
Treasury stock	(14,006,357)	(13,101,682)
Total stockholders equity	441,567,053	416,134,643
Total liabilities and stockholders equity	\$ 1,530,856,449	\$ 1,458,654,644

See accompanying notes to consolidated financial statements.

Table of Contents**Donegal Group Inc. and Subsidiaries****Consolidated Statements of Income**

(Unaudited)

	Three Months Ended September 30,	
	2015	2014
Revenues:		
Net premiums earned	\$ 153,096,075	\$ 142,149,561
Investment income, net of investment expenses	5,399,080	4,299,044
Net realized investment (losses) gains (includes (\$754,050) and \$351,269 accumulated other comprehensive (loss) income reclassifications)	(754,050)	351,269
Lease income	178,827	217,144
Installment payment fees	1,473,447	1,641,459
Equity in earnings of Donegal Financial Services Corporation	408,405	476,906
Total revenues	159,801,784	149,135,383
Expenses:		
Net losses and loss expenses	102,233,708	91,003,905
Amortization of deferred policy acquisition costs	25,036,000	22,889,000
Other underwriting expenses	24,155,566	22,795,149
Policyholder dividends	886,210	933,910
Interest	188,000	368,417
Other expenses	301,367	531,178
Total expenses	152,800,851	138,521,559
Income before income tax expense	7,000,933	10,613,824
Income tax expense (includes (\$263,918) and \$119,431 income tax (benefit) expense from reclassification items)	1,314,102	1,865,113
Net income	\$ 5,686,831	\$ 8,748,711
Earnings per common share:		
Class A common stock - basic and diluted	\$ 0.21	\$ 0.33
Class B common stock - basic and diluted	\$ 0.18	\$ 0.30

Donegal Group Inc. and Subsidiaries**Consolidated Statements of Comprehensive Income**

(Unaudited)

	Three Months Ended September 30,	
	2015	2014
Net income	\$ 5,686,831	\$ 8,748,711
Other comprehensive income (loss), net of tax		
Unrealized gain (loss) on securities:		
Unrealized holding income (loss) during the period, net of income tax expense (benefit) of \$463,221 and (\$246,339)	860,268	(447,448)
Reclassification adjustment for losses (gains) included in net income, net of income tax (benefit) expense of (\$263,918) and \$119,431	490,132	(231,838)
Other comprehensive income (loss)	1,350,400	(679,286)
Comprehensive income	\$ 7,037,231	\$ 8,069,425

See accompanying notes to consolidated financial statements.

Table of Contents**Donegal Group Inc. and Subsidiaries****Consolidated Statements of Income**

(Unaudited)

	Nine Months Ended September 30,	
	2015	2014
Revenues:		
Net premiums earned	\$ 450,083,676	\$ 412,286,978
Investment income, net of investment expenses	15,505,429	13,529,304
Net realized investment gains (includes \$682,932 and \$2,296,909 accumulated other comprehensive income reclassifications)	682,932	2,296,909
Lease income	568,552	643,726
Installment payment fees	4,473,905	4,964,708
Equity in earnings of Donegal Financial Services Corporation	1,276,692	1,234,773
Total revenues	472,591,186	434,956,398
Expenses:		
Net losses and loss expenses	296,012,311	286,523,746
Amortization of deferred policy acquisition costs	73,872,000	66,233,000
Other underwriting expenses	73,192,072	64,800,475
Policyholder dividends	2,491,919	1,935,660
Interest	908,615	1,177,034
Other expenses	1,704,680	2,145,963
Total expenses	448,181,597	422,815,878
Income before income tax expense	24,409,589	12,140,520
Income tax expense (includes \$239,026 and \$780,949 income tax expense from reclassification items)	5,403,395	2,087,553
Net income	\$ 19,006,194	\$ 10,052,967
Earnings per common share:		
Class A common stock - basic	\$ 0.71	\$ 0.39
Class A common stock - diluted	\$ 0.69	\$ 0.38
Class B common stock - basic and diluted	\$ 0.63	\$ 0.35

Donegal Group Inc. and Subsidiaries**Consolidated Statements of Comprehensive Income**

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(Unaudited)

	Nine Months Ended September 30,	
	2015	2014
Net income	\$ 19,006,194	\$ 10,052,967
Other comprehensive (loss) income, net of tax		
Unrealized (loss) gain on securities:		
Unrealized holding (loss) income during the period, net of income tax (benefit) expense of (\$1,141,726) and \$4,299,787	(2,120,347)	8,050,945
Reclassification adjustment for gains included in net income, net of income tax expense of \$239,026 and \$780,949	(443,906)	(1,515,960)
Other comprehensive (loss) income	(2,564,253)	6,534,985
Comprehensive income	\$ 16,441,941	\$ 16,587,952

See accompanying notes to consolidated financial statements.

Table of Contents**Donegal Group Inc. and Subsidiaries****Consolidated Statement of Stockholders' Equity**

(Unaudited)

Nine Months Ended September 30, 2015

	Class A Shares	Class B Shares	Class A Amount	Class B Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance, September 30, 2014	22,389,369	5,649,240	\$ 223,894	\$ 56,492	\$ 200,348,783	\$ 5,353,269	\$ 223,253,887	\$ (13,101,682)	\$ 416,134,773
Issuance of common stock									
Repurchase of common stock									
Conversion of preferred stock	1,056,861		10,569		16,755,374				16,765,943
Net income							19,006,194		19,006,194
Dividends paid							(7,295,336)		(7,295,336)
Change in fair value of stock options					553,346		(553,346)		
Benefit on exercise of stock options					424,537				424,537
Change in fair value of treasury stock								(904,675)	(904,675)
Change in other comprehensive income						(2,564,253)			(2,564,253)
Balance, September 30, 2015	23,446,230	5,649,240	\$ 234,463	\$ 56,492	\$ 218,082,040	\$ 2,789,016	\$ 234,411,399	\$ (14,006,357)	\$ 441,565,223

See accompanying notes to consolidated financial statements.

Table of Contents**Donegal Group Inc. and Subsidiaries****Consolidated Statements of Cash Flows**

(Unaudited)

	Nine Months Ended September 30,	
	2015	2014
Cash Flows from Operating Activities:		
Net income	\$ 19,006,194	\$ 10,052,967
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,890,128	2,621,222
Net realized investment gains	(682,932)	(2,296,909)
Equity in earnings of Donegal Financial Services Corporation	(1,276,692)	(9,375)
Increase in accounts payable - related party	-- (12,500)	
	57,250	

	Net Cash Used In Operating Activities	(87,842)
	(177,697)	(428,094)

	----- CASH	
	FLOW FROM	
	INVESTING ACTIVITIES:	
	Purchase of property and equipment --	(820) (34,812)
	Purchase of license rights --	-- (100,000)

	Net Cash Used In Investing Activities --	(820) (134,812)

	----- CASH	
	FLOW FROM	
	FINANCING ACTIVITIES:	
	Proceeds from issuance of common stock --	200,000
	507,753 Advance payable --	100,000
	-- Due to stockholder	44,838 -- 60,251

	----- Net Cash	
	Provided By Financing	

Activities	44,838	300,000
	568,004	-----

NET INCREASE		
(DECREASE) IN CASH		
(43,004)	121,483	5,098
CASH AND CASH		
EQUIVALENTS AT		
BEGINNING OF PERIOD		
48,102	45,606	--

----- CASH AND		
CASH EQUIVALENTS AT		
END OF PERIOD \$ 5,098 \$		
167,089	\$ 5,098	
SUPPLEMENTAL		
DISCLOSURE OF		
NON-CASH INVESTING		
AND FINANCING		
ACTIVITIES: Cash paid for		
income taxes \$ 456 \$ 456 \$		
912 Cash paid for interest \$		
-- \$ -- \$ --		
=====		
=====		
=====		
SUPPLEMENTAL		
DISCLOSURE OF CASH		
FLOW INFORMATION:		
During 2003, the Company		
issued 16,500,000 shares of		
common stock with a fair		
value of \$1,650,000 for the		
license rights to the		
bio-cybernetic technology		
and frequency analysis		
technology. See		
accompanying notes to		
condensed financial		
statements. 4		
CARDIOBIOMEDICAL		
CORPORATION (A		
DEVELOPMENT STAGE		
COMPANY) NOTES TO		
FINANCIAL		
STATEMENTS AS OF		
JUNE 30, 2005		
(UNAUDITED) NOTE 1		
SUMMARY OF		
SIGNIFICANT		
ACCOUNTING POLICIES		

AND ORGANIZATION

(A) Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all the information necessary for a comprehensive presentation of financial position and results of operations. It is management's opinion however, that all material adjustments (consisting of normal recurring adjustments) have been made which are necessary for a fair financial statements presentation. The results for the interim period are not necessarily indicative of the results to be expected for the year. (B)

Organization

CardioBioMedical Corporation (a development stage company) (the "Company") was incorporated under the laws of the State of Delaware on May 28, 2003. The Company was organized to commercialize a scientific technique applying bio-cybernetic principles and frequency analysis in a non-invasive medical diagnosis of coronary artery disease. Activities during the development stage include developing and implementing it business plan and raising capital. (C)

Use of Estimates In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported period. Actual results could differ from those estimates.

(D) Income Taxes The Company accounts for income taxes under the Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("Statement 109"). Under Statement 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under Statement 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. 5

CARDIOBIOMEDICAL
CORPORATION (A
DEVELOPMENT STAGE

COMPANY) NOTES TO
FINANCIAL
STATEMENTS AS OF
JUNE 30, 2005
(UNAUDITED) (E) Loss
Per Share Basic and diluted
net loss per common share is
computed based upon the
weighted average common
shares outstanding as
defined by Financial
Accounting Standards No.
128, "Earnings Per Share."
As of June 30, 2005 and
2004, there were no
common share equivalents
outstanding. (F) Fair Value
of Financial Instruments The
carrying amounts of the
Company's financial
instruments including
accounts payable
approximate fair value due
to the relatively short period
to maturity for this
instrument. (G) Revenue
Recognition Revenues from
the sale of the Company's
medical devices are
recognized upon delivery of
the equipment and when risk
of loss has been transferred
to the customer. The
Company recognizes
software license fees over
the term of the license. (H)
Property and Equipment
Property and equipment are
stated at cost, less
accumulated depreciation.
Expenditures for
maintenance and repairs are
charged to expense as
incurred. Depreciation is
provided using the
straight-line method over the
estimated useful life of three
to five years. (I) Business
Segments The Company
operates in one segment and
therefore segment

information is not presented.

(J) Concentrations of Credit

Risk The Company's products require approval from the Food and Drug Administration prior to commercial sales. The Company's future products may not receive required approvals. If the Company is denied such approval, or if such approval is delayed, it would have a materially adverse impact on the Company's business, results of operations and financial condition. (K) Intangible

Assets The Company follows the provisions of FASB Statement No. 142,

Goodwill and Other Intangible Assets. Pursuant to Statement 142, goodwill and intangible assets acquired in a purchase business combination and determined to have indefinite useful lives are not amortized, but instead tested for impairment at

least annually in accordance with the provisions of Statement 142. Statement

142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with FASB

Statement No. 144, Accounting for Impairment or Disposal of Long-Lived

Assets. Intangible assets, which consist of license rights to patents, are amortized using the straight-line method over the license rights of 15 years. 6

CARDIOBIOMEDICAL
CORPORATION (A
DEVELOPMENT STAGE
COMPANY) NOTES TO
FINANCIAL
STATEMENTS AS OF
JUNE 30, 2005
(UNAUDITED) (L)

Research and Development
The Company accounts for
research and development
costs in accordance with
SFAS No. 2, Accounting for
Research and Development
Costs. Under SFAS No. 2,
all research and
development costs must be
charged to expense as
incurred. Accordingly,
internal research and
development costs are
expensed as incurred. Third
party research and
development costs are
expensed when the
contracted work has been
performed or as milestone
results have been achieved.

Company sponsored
research and development
costs related to both present
and future products are
expensed in the period
incurred. (M) Impairment of

Long-Lived Assets The
Company has adopted SFAS
No. 144, which requires that
long-lived assets and certain
identifiable intangible assets
held and used by the

Company are reviewed for
impairment whenever events
or changes in circumstances
indicate that the carrying
amount of an asset may not
be recoverable. Events
relating to recoverability
may include significant
unfavorable changes in
business conditions,
recurring losses, or a

forecasted inability to achieve break-even operating results over an extended period. The Company evaluates the recoverability of long-lived assets annually. SFAS No. 144 also requires that assets to be disposed of be reported at the lower of the carrying amount or the fair value less costs to sell. (N) Recent Accounting Pronouncements Statement of Financial Accounting Standards ("SFAS") No. 151, "Inventory Costs - an amendment of ARB No. 43, Chapter 4" SFAS No. 152, "Accounting for Real Estate Time-Sharing Transactions - an amendment of FASB Statements No. 66 and 67," SFAS No. 153, "Exchanges of Non-monetary Assets - an amendment of APB Opinion No. 29," and SFAS No. 123 (revised 2004), "Share-Based Payment," were recently issued. SFAS No. 151, 152, 153 and 123 (revised 2004) have no current applicability to the Company and have no effect on the financial statements.

7 CARIOBIOMEDICAL CORPORATION (A DEVELOPMENT STAGE COMPANY) NOTES TO FINANCIAL STATEMENTS AS OF JUNE 30, 2005 (UNAUDITED) NOTE 2 LOANS PAYABLE - OFFICER During 2005, the Company received a loan from a stockholder of \$44,459 for working capital. The loan bears interest of 8% per annum, is due on demand and unsecured.

NOTE 3
STOCKHOLDERS'
EQUITY (A) Common
Stock Issued for Cash
During 2003, the Company
issued 2,500 shares of
common stock to its founder
for cash of \$250 (\$0.10 per
share). During 2003, the
Company issued 800,000
shares of common stock for
cash of \$80,000 (\$0.10 per
share). During 2003, the
Company issued 277,778
shares of common stock for
cash of \$125,000 (\$0.45 per
share). During 2004, the
Company issued 672,231
shares of common stock for
cash of \$302,503 (\$0.45 per
share). (B) Common Stock
Issued for Services During
2003, the Company issued
7,125,000 shares of common
stock for officer
compensation valued for
financial accounting
purposes at \$712,500 (\$0.10
per share) based upon recent
cash offering prices. During
2003, the Company issued
16,500,000 shares of
common stock for licensing
rights valued for financial
accounting purposes at
\$1,650,000 (\$0.10 per share)
based upon recent cash
offering prices. During
2003, the Company issued
8,200,000 shares of common
stock for consulting services
valued for financial
accounting purposes at
\$820,000 (\$0.10 per share)
based upon recent cash
offering prices. (C)
Amendment to Articles of
Incorporation During 2003,
the Company amended its
Articles of Incorporation to
provide for an increase in its

authorized share capital. The authorized capital stock increased to 100,000,000 common shares at a par value of \$0.01 per share, and 5,000,000 preferred shares at a par value of \$0.01 with class and series designations, voting rights, and relative rights and preferences to be determined by the Board of Directors of the Company from time to time. 8

CARDIOBIOMEDICAL CORPORATION (A DEVELOPMENT STAGE COMPANY) NOTES TO FINANCIAL STATEMENTS AS OF JUNE 30, 2005

(UNAUDITED) NOTE 4 RELATED PARTY TRANSACTIONS During 2003, the Company issued 7,125,000 shares of common stock to its President for services with a fair value of \$712,500. During 2003, an officer advanced the Company \$15,413 for start-up and operating expenses. The advance is non-interest bearing, unsecured and due on demand. During 2005 and 2004, the Company recorded royalty expenses due to a related party of \$125,000 and \$40,625, respectively.

During 2005, an officer loaned the Company \$44,459 for working capital. The loan bears interest at 8%, is unsecured and due on demand. NOTE 5

COMMITMENTS AND CONTINGENCIES (A) License Agreement During 2003, the Company acquired the North America license

rights to the bio-cybernetic technology and frequency analysis technology covered by U.S. Patent 6,145,228 and copyright TXU 856-320. The license period is for the life of the patent or for 15 years from the first sale of products developed using the license rights. The agreement requires a royalty payment of 5% of all sales after initial sales of \$3,000,000 or 50 units, minimum royalties equal to 12.5% of all equity raised in the first year and minimum annual royalties of \$250,000, thereafter. As of June 30, 2005, the Company has not sold any products.

(B) Employment Agreement
During 2003, the Company entered into an employment agreement with an individual to assume the position of Chief Executive Officer and President for a term of five years at an annual salary of \$250,000 upon the Company raising \$500,000 in equity financing, with additional annual increases of 10% every July 1 over the life of the agreement. The agreement also calls for the officer to receive fringe benefits and participate in all Company employment benefits as approved by the Board of Directors. As of June 30, 2005, the Company has not raised the minimum equity capital and no salary has been accrued or paid.

CARDIOBIOMEDICAL
CORPORATION (A
DEVELOPMENT STAGE
COMPANY) NOTES TO
FINANCIAL

STATEMENTS AS OF
JUNE 30, 2005
(UNAUDITED) NOTE 6
GOING CONCERN As
reflected in the
accompanying financial
statements, the Company is
in the development stage
with a working capital
deficiency of \$408,505 and
a negative cash flow from
operations of \$428,094 from
inception. This raises
substantial doubt about its
ability to continue as a going
concern. The ability of the
Company to continue as a
going concern is dependent
on the Company's ability to
raise additional capital and
implement its business plan.
The financial statements do
not include any adjustments
that might be necessary if
the Company is unable to
continue as a going concern.
Management believes that
actions presently being
taken to obtain additional
funding and implement its
strategic plans provide the
opportunity for the
Company to continue as a
going concern. 10
ADVANCED SPORTS
TECHNOLOGIES, INC.
PRO FORMA
CONSOLIDATED
FINANCIAL
STATEMENTS AS OF
JULY 31, 2005
ADVANCED SPORTS
TECHNOLOGIES, INC.
PRO FORMA BALANCE
SHEETS JULY 31, 2005
(UNAUDITED) Historical
Advanced Sports
Technologies,
CardioBioMedical Pro
Forma Inc. Corporation
Adjustments Pro Forma

Accumulated deficit during
development stage (475,242
(2,688,168) (1) 475,242
(2,688,168) Less deferred
compensation (175,000 -- --
(175,000) -----

Total Stockholders' Equity
(Deficiency) (363,116
1,002,085 638,969

----- TOTAL
LIABILITIES AND
STOCKHOLDERS'
EQUITY (DEFICIENCY) \$
4,564 \$ 1,415,688 \$
1,420,252

=====

===== See
accompanying notes to pro
forma financial statements. 1
ADVANCED SPORTS
TECHNOLOGIES, INC.
PRO FORMA
STATEMENTS OF
OPERATIONS JULY 31,
2005 (UNAUDITED)
Historical Advanced Sports
Technologies,
CardioBioMedical Pro
Forma Inc. Corporation
Adjustments Pro Forma

REVENUE \$ -- \$ -- \$ --
COST OF GOODS SOLD --
-- -- -----

GROSS PROFIT -- -- --

OPERATING EXPENSES
Depreciation and
amortization -- 135,016
135,016 Research and
development -- 184,305
184,305 Royalty expense
150,000 272,188 (1)
(150,000) 272,188 In-kind

contribution of services	20,000	-- (1)	(20,000)	--
Professional fees	4,600	6,064	(1)	(4,600) 6,064
General and administrative expenses	3,028	26,928	(1)	(3,028) 26,928

Total Operating Expenses	177,628	624,501	624,501	

LOSS FROM OPERATIONS	(177,628)	(624,501)	(624,501)	
OTHER INCOME (EXPENSE)	Interest expense --	(376)	(376)	
Interest income --	1,383			

Total Other Expense --	1,007	1,007		

LOSS FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES	(177,628)	(623,494)	(623,494)	
PROVISION FOR INCOME TAXES --	456	456		

NET LOSS \$	(177,628)	\$ (623,950)	\$ (623,590)	
=====				
===== Pro forma net loss per share - basic and diluted \$ (0.02)				
===== Pro forma weighted average number of shares outstanding - basic and diluted 27,626,259				
===== See accompanying notes to pro forma financial statements. 2				
ADVANCED SPORTS				

TECHNOLOGIES, INC.
NOTES TO PRO FORMA
CONSOLIDATED
FINANCIAL
STATEMENTS JULY 31,
2005 (UNAUDITED)
NOTE: (1) To record the
reverse merger and
recapitalization of
CardioBioMedical
Corporation by Advanced
Sports Technologies, Inc. 3