

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

**FORM 10-K**

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

For the fiscal year ended **December 31, 2016**

OR

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

For the transition period \_\_\_to\_\_\_

Commission file number: **No. 0-24368**

**FLEXPPOINT SENSOR SYSTEMS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation)

**87-0620425**

(I.R.S. Employer Identification No.)

**106 West Business Park Drive, Draper, Utah**

(Address of principal executive offices)

**84020**

(Zip Code)

Registrant's telephone number, including area code: **801-568-5111**

Securities registered under Section 12(b) of the Act: **None**

Securities registered under Section 12(g) of the Act: **Common Stock**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

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

The aggregate market value of 63,286,301 shares of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold (\$0.06), as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2016) was approximately \$3,797,178.

The number of shares outstanding of the registrant's common stock, as of April 14, 2017, was 78,363,464.

Documents incorporated by reference: None

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*In this annual report references to “Company”, “Flexpoint”, “Flexpoint Sensor,” “we,” “us,” and “our” refer to Flexpoint Sensor Systems, Inc.*

## **FORWARD LOOKING STATEMENTS**

The U.S. Securities and Exchange Commission (“SEC”) encourages companies to disclose forward-looking information so that investors can better understand future prospects and make informed investment decisions. This report contains these types of statements. Words such as “may,” “expect,” “believe,” “anticipate,” “estimate,” “project,” or “continue” or comparable terminology used in connection with any discussion of future operating results or financial performance identify forward-looking statements. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this report. All forward-looking statements reflect our present expectation of future events and are subject to a number of important factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

### **PART I**

#### **ITEM 1. BUSINESS**

##### **HISTORICAL DEVELOPMENT**

Flexpoint Sensor Systems, Inc. was incorporated in the state of Delaware in June 1992 as Nanotech Corporation. In April 1998, Nanotech changed the company name to Micropoint, Inc and in July 1999 Micropoint changed its name to Flexpoint Sensor Systems, Inc. Flexpoint was forced to seek bankruptcy protection on July 3, 2001, and filed a voluntary petition for reorganization pursuant to Chapter 11 of the United States Bankruptcy Code. On February 24, 2004, the bankruptcy court confirmed Flexpoint's Plan of Reorganization. We used fresh-start reporting and all assets of Flexpoint Sensor Systems, Inc. were restated to reflect their reorganization value, which approximated the fair value at the date of reorganization.

##### **BUSINESS OVERVIEW**

Flexpoint Sensor Systems, Inc. (“Flexpoint”, or “Company”), is principally engaged in designing, engineering and manufacturing bend sensor technology and products using its patented Bend Sensor<sup>®</sup> technology, (a flexible potentiometer technology. We continue to make further improvements to our technologies, manufacturing and developing fully integrated devices and related products that we have been marketing and selling to a variety of companies in diverse industries. We are negotiating and signing agreements and contracts that have provided some limited revenues and have proven that our sensors are more durable, adaptable and cost effective than any other product currently on the market. We own five patents, including patents on specific devices that use the Bend Sensor<sup>®</sup> and have exclusive rights through licensing agreements to other patents and devices.

We are continuing to develop and enhance our intellectual properties that will result in additional patents being filed. The Company currently manufactures, and has jointly developed, eighteen products that are being sold and supplied to current customers and we continue to receive orders for custom prototype sensors as well as our standard sensors. Our sales and marketing efforts have been targeted toward the development of new relationships with clients while maintaining and strengthening relationships already developed with several Tier 1 (major) suppliers in the automotive industry. We have built and shipped orders to a number of these companies to enable them to test the utilization of our sensors into their existing and developing product lines. In the coming year we plan to focus our marketing efforts on a number of larger domestic and international companies that have applications which have the potential to greatly increase the volume of sensors we are currently manufacturing.

The Company established a number of new business relationships in 2016 which enabled us to generate record sales revenue. The expanded relationships with core clients and the new relationships developed have positioned the Company for a very successful year in 2017.

Accomplishments in 2016 include the following:

- Established an ongoing relationship with an American-based Fortune 500 global toy manufacturing company. First year annualized volume on this client has been in excess of 800,000 sensors.
- Reached production readiness phase with Tier 1 automotive manufacturer featuring the patented Flexpoint Horn Actuation system.
- Expanded glove applications incorporating the Bend Sensor<sup>®</sup> technology across a number of industries, including medical, toys, gaming and virtual reality. Some specific relationships developed include:
  - A robotics toy kit from ZeroU!
  - Medical virtual reality rehabilitation glove and system from “Gloreha<sup>®</sup> Sinfonia”
  - Medical rehabilitation glove system from Neofect and YouReHab
  - Launch of the industry’s first consumer virtual reality globe by Manus VR

- Technological glove designed for the hearing impaired that converts Sign Language into speech in real-time from award winning Turtela Technology Solutions
- Queen’s University Human Media Lab developed the industry-first patented flexible smart phone – ReFlex – and other inventive technologies such as PaperTab and Holoflex, all of which incorporate the Bend Sensor<sup>®</sup> technology
- Launched the Flexpoint Bend Sensor<sup>®</sup> Glove Kit in order to help engineers shorten product development time and assist in the implementation of the Bend Sensor<sup>®</sup> into future applications.

Expectations for 2017 include the following:

- Toy related purchase orders are expected to significantly increase from 2016 levels. The Fortune 500 global toy manufacturing company Flexpoint is working with will be the largest contributor, with annualized volumes expected to grow as a direct result of increased sales and expansion of the Bend Sensor<sup>®</sup> technology to other models of the toys. Revenue contributions will also come from other toy clients as their commercialization efforts continue in 2017.
- Flexpoint expects growth in the shoe (wearable) related market segment as multiple customers come to market with different adaptations of applications. As the Virtual Reality and Augmented Reality (VR/AR) market segments continue on their dramatic growth path, Flexpoint expects to realize significant revenue from as many as ten different customer sources in 2017. This exciting adoption will span the B2B, consumer and medical markets.
- Flexpoint will expand its channel/distribution partner presence globally in 2017, which will result in significant contribution to revenue from sales of “stock” products from these valued partners.
- Several existing Flexpoint customers are planning to bring new products which incorporate the Bend Sensor<sup>®</sup> technology to market in 2017.
- IoT/IIot applications featuring the Bend Sensor<sup>®</sup> technology will increase as these types of applications continue their dramatic growth across a variety of markets, including medical and power/energy.
- Multiple medical products from various companies, including Haemoband, will achieve commercialization in 2017.

The Company continues to focus its efforts to work directly with customers, expand sales pipelines and finalize deals. The Company has also successfully upgraded and implemented a commercial grade sales force automation and CRM application; further enhancing its ability to scale.

In addition to the sale of our products and engineering and design services, we also may consider generating revenues through licensing our unique technology for field of use or territory. We will attempt to negotiate each license agreement to contain a provision for either first right of refusal to manufacture, or royalty provisions for specific products or applications. We have continued to concentrate our marketing efforts on sensors and electronics which we consider to be quick-to-market production orders, and on engineering services that have generated limited, but immediate, revenues that have provided cash flow and name recognition. We have also continued our marketing efforts in the automotive industry. Due to the size and the numerous regulations inherent in the automotive industry, it requires a significantly longer time to develop and acquire approvals for new technologies. However, as there are high volumes associated within the automotive industry, we anticipate that this industry will potentially generate significant long-term revenue streams.

We continue to work with Tier 1 automotive suppliers on a variety of products that are in various stages of development and implementation. Both the medical and automotive industries have undergone significant changes over the past several years. This changing environment has created delays in the implementation of the automotive and medical devices and therefore, over the past three years, we have focused our limited resources and marketing efforts on sensors and products that, in the aggregate, will generate a smaller dollar volume than those anticipated from our medical or automotive devices, but have a quicker pathway to market and have generated needed limited, but immediate, cash flow while providing additional name and product recognition that we believe will provide long term benefits. Based upon the current interest in our sensors from both the automotive and medical industries, we anticipate that over the next twelve months, we will begin producing larger repeatable volumes of sensors and devices in these focus industries.

## PRINCIPAL PRODUCTS

### Bend Sensor<sup>®</sup> Technology

The Company owns the patent rights to our Bend Sensor<sup>®</sup> technology. The Bend Sensor<sup>®</sup> is a flexible potentiometer; the bend sensor product consists of a coated substrate, such as plastic, that changes electrical conductivity as it is bent in a consistent manner. Electronic systems connect to this sensor and measure in detail the amount of bending or movement that occurs in a predictable manner. Certain applications of the Bend Sensor<sup>®</sup> potentiometer have been patented (See “Patents and Intellectual Property,” below).

A typical potentiometer functions through the means of metal contacts swiping or rubbing across a resistive element. Our Bend Sensor<sup>®</sup> potentiometer is a single layer with no mechanical assembly which makes it more reliable and significantly smaller, lighter in weight and usually less expensive than mechanical potentiometers. Management believes many sensor applications can be improved using our technology and that the use of our technology will result in new products and new sensor applications, including the USB Bend Sensor<sup>®</sup> kit, which has found application in a wide range of products since its introduction in 2015

We have developed the following applications and devices using the Bend Sensor<sup>®</sup> technology and are currently marketing these items:

### Automotive Products

For the past several years, we have been in negotiations with several Tier 1 suppliers and OEMs and have proved the benefit and capabilities of the Bend Sensor<sup>®</sup> technology in the automotive industry for the following products:

#### Horn Switch

A major automobile manufacturer has partnered with Tier 1 suppliers to test our patented horn switch to replace their existing technology. Because the Bend Sensor<sup>®</sup> switch and the associated electronics have very few moving parts, our switch will help eliminate the squeaks, rattles and other noise associated with the existing technology in use. Additionally, because the Bend Sensor<sup>®</sup> has few moving parts, it can withstand a higher number of actuations without replacement.

Testing began in October 2013 and included installation of our horn switch into multiple cars, which were then driven by various executives, decision makers and engineers of the company. The driving tests included a 150,000-mile driving test in which the system functioned under actual driving conditions. In July 2014, we announced the completion of this hands-on vehicle testing and the system functioned properly and there were no issues.

The Company executed an advanced stage turnkey design and development agreement with a Tier 1 automotive manufacturer in 2016. The project was completed prior to yearend. The system has now reached "production readiness" status with the Tier 1 automotive manufacturer featuring the patented Flexpoint Horn Actuation system.

The Company anticipates that once the manufacturer implements the initial horn switch and the first units are integrated into existing production the project will be expanded to incorporate additional switches on the horn pad of multiple vehicle platforms. The automobile manufacturer is also evaluating the use of the Bend Sensor<sup>®</sup> as a switch to open rear doors of SUV's and as a seat belt reminder (SBR).

The Company believes that this will advance project along the path for wide-spread adoption and production deployment of the horn switch.

#### Seat Belt Reminder

While working with various Tier 1 automotive suppliers we developed and tested a seat belt reminder (SBR) sensor that alerts the occupant of an automobile to fasten his/her seatbelt. We continue working with multiple manufacturers to potentially replace existing devices in the marketplace with a system we believe is superior in performance with the advantage of a lower price point.

Using the same concept, this product is currently being considered as a safety device, similar to the emergency vehicle application discussed below, to be used in school buses. A bus driver could immediately be alerted should any of the passengers be in an unsafe position prior to entering traffic. The Bend Sensor<sup>®</sup> not only detects occupancy of a seat, but also has the capability of recording and logging the frequency of use over time. This feature would enable transportation companies to use this recorded information to determine the most optimum usage of their capital equipment to maximize return on their investments. There have been some legislative debates over whether a bus, and school busses in particular, should provide seatbelts for all of the passengers. Coupled with Intertek's Protek Passenger Awareness System, our SBR could be easily implemented to fulfill requirements of such legislation.

#### Braking Systems

HTK Engineering, LLC continues to market their safety mechanism specifically designed for garbage trucks and other large commercial vehicles. Most commercial vehicles have an "air braking system" which can lose pressure and disengage the brakes while the vehicle is still running. Our Bend Sensor<sup>®</sup> technology is the key component of the HTK system, which provides a backup braking system, preventing the vehicle from inadvertently rolling into people, buildings or other vehicles. Part of HTK's marketing effort has been to involve insurance companies who have paid claims related to the initial brake failure. Because the HTK system is easily

installed and is adaptable to most vehicles, insurance companies have indicated they would provide a reduction in premiums should their customers install the HTK system.

The Company has developed a similar system for Vista Brakelock Systems, LLC, in Lake Mary, Florida for use on fire trucks. The first units have been delivered and installed with additional orders to follow.

### Emergency Vehicles

Intertek Industrial Corp., located in Jacksonville, Florida, is a leading supplier of quality seatbelt systems and safety devices to the emergency vehicle market. Their Protek Passenger Awareness System uses our Bend Sensor<sup>®</sup> technology to enhance the safety of passengers and personnel in emergency vehicles. The system is installed in the seats of the rear compartments of the emergency vehicle and provides the driver with constant feedback as to the “seated and secured” status of passengers and personnel in the rear of the vehicle. The system is currently installed in about 30 ambulances and is being tested for use in other types of emergency vehicles. Intertek continues to issue additional purchase orders for their existing and new customers.

### Toys

As noted above, toy related purchase orders are expected to increase during 2017. The Company is working with a Fortune 500 global toy manufacturing company. Flexpoint expects annualized volumes to grow as a direct result of increased sales and expansion of the Bend Sensor<sup>®</sup> technology to other models of the toys.

### Disposable Colonoscope

We have partnered with Haemoband Surgical Ltd. and have satisfactorily completed initial testing for their disposable colonoscope device, which uses our Bend Sensor<sup>®</sup> technology to monitor the device's position while the procedure is conducted on the patient. Testing to date has demonstrated the ability of Flexpoint's sensor to graphically display the shape of the colonoscope and to accurately detect any looping of the scope. With more accurate readings on the position of the device, doctors can minimize complications that can arise from the colonoscope coiling, and can reduce the time required to perform the procedure. With the Bend Sensor<sup>®</sup> the current monitoring equipment can graphically display the position and formation of the colonoscope.

Haemoband introduced the product at the Medica 2014 medical trade show in Dusseldorf, Germany. Upon the completion of the clinical trials Haemoband will push to have the product certified and available to meet the pent-up demand for inexpensive, accurate methods of determining the position of the colonoscopes, and Haemoband's device is the first product in that class. Once development and certification of the device is completed it is anticipated that we will enter into a long term Manufacturing and Supply Agreement with Haemoband.

Because of the large demand, and the fact that this is a disposable device, it is anticipated that we could begin producing sensors for this device in the millions of sensors annually as acceptance and incorporation of the sensors occurs. Growth in the medical sensors industry has been robust in recent years and is expected to continue to grow. Pressure and flow sensors are singled out for particularly strong growth--which are two of Flexpoint's main competencies. With its Haemoband partnership, Flexpoint gains entry into an industry that will likely factor prominently in its future growth.

### Flow Control Applications

Our flexible sensor has proven to be an extremely robust and durable flow control switch. The Bend Sensor<sup>®</sup> product allows for the measurement of liquid and air flow, and has been tested to over 35 million cycles without failure. The Company is currently working with a global leader in cleaning, sanitizing, food safety products who have been testing the Bend Sensor<sup>®</sup> as a measuring and dispensing device for their harsh chemical products. When the Bend Sensor<sup>®</sup> device is placed in a flow stream, it can measure if flow is occurring, or it can measure the amount of flow that is occurring. The fact that our design incorporates a single layer flexible device allows it to effectively operate in many harsh environments. While other technologies are affected by dirt, dust, and liquids, the Bend Sensor<sup>®</sup> product is able to reliably operate in those environments. An international supplier of integrated tinting solutions is interested in a similar dispensing system for its paint manufacturers, retail chains and plastic producers. We continue to receive inquiries from a variety of industries for flow applications.

### Medical Bed

Through a joint development agreement with R&D Products, the Company developed and produced 20 prototype medical beds that assist in the management of bed sores. Using the Bend Sensor<sup>®</sup> technology and accompanying electronics the bed is able to determine the position and movement of the person in the bed. The bed has the ability to roll a patient left or right to relieve pressure areas as well as to facilitate dressing changes. Needed adjustments can be made through relieving pressure areas to meet the required standards

of care and patient comfort. The medical application for the bed was originally scheduled to launch in mid to late 2009. However, due to management changes and an acquisition, the project has been delayed.

The bed technology has a commercial application that will be marketed as an in-home specialty mattress. The specialty (non-innerspring) segment of the bedding market has been growing rapidly over the past six to seven years. With the increasing demand of specialty mattresses, almost every mattress company has a specialty bed they promote. We have had a number of discussions with various mattress companies who have expressed interest in the concept.

R&D Products anticipates applying the medical bed concept and technology to a mattress cover that can be used for both adult in-home care or nursing home facilities or on infant beds.

### Wearables

In November 2009, the Bend Sensor<sup>®</sup> technology was featured in a study by the University of Rome Tor Vergeta, using an interactive glove, and was recommended as a possible tool to assist doctors in neuroscience studies to determine a patient's level of motor skill or post-surgical evaluation and therapy, or for assisting the disabled. Due to the ability of the sensor to measure range of motion, the study also recommends using the Bend Sensor<sup>®</sup> technology as a tool to design ergonomic devices. The University has continued its research and has identified additional medical applications of our sensors.

In the rapidly growing and emerging wearables space, Flexpoint has also recently received additional purchase orders from multiple glove manufacturers across various market sub-segments including medical, toys, gaming and virtual reality. The "speed to market" commercialization plans of these companies are driving this increased order volume. Flexpoint is aggressively going after this evolving market, and expects this pattern to continue and dramatically increase in 2017. In aggregate, Bend Sensor<sup>®</sup> 2017 wearables order volumes are expected to number in the tens of thousands for the year. The wearables market segment is clearly one where our technology is easily adapted and truly illustrates our technological differentiation. Flexpoint's willingness and ability to customize sensors for these innovative companies and deliver them at a competitive price point allows us to deliver real value to our customers.

In early March of 2017 the Company received an approved proposal to provide 120,000 sensors to CaptoGlove. Initial production of the first 12,000 sensors is underway and it is anticipated that manufacturing and delivery of the entire order will be completed during 2017. In addition to producing an array of Bend Sensors<sup>®</sup>, the Company is under agreement to supply integrated assemblies comprised of multiple sensor types and associated electronics. CaptoGlove<sup>™</sup> is a wearable virtual reality gaming motion controller able to transform human hand actions into digital inputs. These ground-breaking glove systems, combined with unique, leading edge software applications, also adapt to a wide range of other applications, including health rehabilitation, unmanned systems control, smartphone interaction and professional training across multiple industries.

### Shoe Application

We have continued our work with Bend Tech, LLC to develop and market a sensor system that will provide real time feedback and analysis on balance, performance and cadence to runners and other athletes. Utilizing several of our patented Bend Sensor<sup>®</sup> technology sensors, located within the shoe, provides real-time feedback of a runner's performance that can be utilized for training and teaching proper technique that will aid in the prevention of injuries.

Because the sensor features a single layer construction, the sensors are not damaged or degraded by dust, dirt or other particulates. Moisture and immersion in mud, water, sweat and many other chemicals are not an issue.

The system will provide real time analysis showing balance, performance and other pertinent data relating to the performance of the individual. The fast response time of the sensor allows it to provide time differentials between heel and toe strike. Other metrics like cadence, ground contact time, the time the foot is not in contact with the ground; shoe loading and unloading profiles and information critical to training and injury prevention can be measured and captured for later review and analysis. Running information can be easily integrated into social media and training logs for quick feedback and analysis.

The electronics include miniaturized printed circuit boards, a wireless communication system, blue tooth technologies, wireless rechargeable batteries and "smart phone" interface. Although the original device was developed to be used in running shoes, the Company has incorporated the shoe technology into a golf training tool that will include golf clubs fitted with our sensors.

In December 2014 we announced the launch, in conjunction with Bend Tech L.L.C., of a shoe insole system, the Mettis Trainer. We expect to have the product available for delivery in 2017. Bend Tech is beginning to finalize partnerships with larger companies already involved in the athletic shoe industry for distribution.



## Other Applications

Management believes the potential market for our technology includes using the technology to replace or upgrade existing devices used in industrial control systems, medical equipment and instrumentation, computer peripherals, automotive transmission equipment, commercial vending equipment and other devices. We have developed, or are developing:

- a rupture disc/bursting disc utilizing the Bend Sensor<sup>®</sup> as the detection/alarm element of a ruptured disc device;
- an infant bed cover using our patented sensors that will be used to monitor infants in the prevention of sudden infant death syndrome (SIDS);
- video gaming devices; and
- other sports applications:

The Company has developed several sports-related products featuring the Company's patented Bend Sensor<sup>®</sup> technology. The products currently include the use of sensor technology for bowling and golf shoes. The products will be used to help measure and improve an individual's performance. Among other things the shoes will measure distribution of weight and weight transfer during the monitored event and present a recorded image of the individual's performance for evaluation. The products are currently being demonstrated to major equipment manufacturers and distributors and the Company anticipates they could be easily brought to market through sports related OEM's.

We intend to further identify applications of our technology in numerous fields and industries. A core marketing strategy is to seek applications of our technology for products used by customers that emphasize functionality, reliability, quality, and user convenience.

## BUSINESS STRATEGY

Due to the many potential applications of our technology and our limited financial and other resources, management made the decision to focus our marketing efforts on a few products that can be brought to market quickly, will provide maximum exposure for the technology and will generate additional orders for products from a growing customer base. This has required us to coordinate our product design, manufacturing, distribution and service strategies in a long-term business model, while still generating short term revenues. Another strategic marketing strategy has been to develop a standard line of sensor products with corresponding hardware, electronics and software to facilitate ease of implementation of our technology into a customer's existing system.

Our standard product line is expected to be sold directly to the customer and through manufacturer's representatives and distributors. We have also expanded our product offering to include substantially complete value-added assemblies, which includes the electronics and software. We continue to consider the licensing of our technology and/or products or strategic partnership arrangements that will generate sufficient revenues to sustain our operations. We anticipate selling primarily to OEM or Tier 1 suppliers for worldwide distribution. For our international customers, we anticipate selling and distributing our products through various manufacturer representatives and distributors.

Since our intended customers are typically technology companies, the design phase of the sales cycle is extremely important and considerably longer than in other industries. The original equipment manufacturers typically approach us with a conceptual product and request that we assist in the initial engineering, design, development and production of a working prototype from which we generate limited revenues. The prototype is then tested in the environment in which the ultimate product will be placed. During this process, the customer is in frequent contact with our application and electrical engineers. Customers also meet with internal sales and support individuals to discuss marketing and distribution channels and strategies for the end consumer products.

We also have added value by expanding our sensor product lines to include circuit boards, enclosures, etc. and have moved toward a fully integrated product while validating and showing the versatility of our Bend Sensor<sup>®</sup> technology. As mentioned above we currently have several such fully developed products that will directly compete with existing products in the automotive industry. We have also used like designs to develop similar products in other industries, thus leveraging the initial engineering and design work. We believe our products provide great reliability and functionality and can be implemented at a lower overall cost to the customer. These fully integrated products will create a much larger value added profit margin for us. However, there is no assurance that such profit margins will be achieved or that these products will be produced in volumes sufficient to generate significant revenue in the near future.

## MARKETING AND SALES

Through aggressive marketing efforts, the Company has expanded its exposure in the automotive industry. In 2015 we hired Paul Sexauer as Vice-President of Sales and Marketing to expand the relationships already established by the Company and to research and identify new companies and markets whose products will benefit from the utilization of the Bend Sensor<sup>®</sup> technology. This has

created new opportunities for our existing automotive lines of products. Most of our marketing efforts to date have been to offer our automotive products primarily to original equipment manufacturers (“OEM’s”), either directly or through Tier 1 suppliers, or through collaborative efforts with other specialized suppliers. Other products are being marketed directly to manufacturers or distributors. Our primary marketing objectives are to continue to generate demand for our products, enhance name and product recognition and support OEM’s and manufactures. As we gain success in branding our name and product recognition we believe the successful use of our products by OEM’s and Tier 1 suppliers will generate additional demand for higher quantity orders of our existing products. We also anticipate that the success of our existing products will allow us to successfully introduce new products and applications to the market.

Due to limited resources our sales strategy depends on a few OEM’s and manufacturers and, were we to lose their business, it will have a significant adverse effect on our results of operations until alternative distribution channels can be established. We may consider contractual commitments to OEM’s and Tier 1 suppliers in exchange for fees and/or royalties. In addition, because we sell on a limited basis directly to end users, we are dependent, in part, on the OEM’s for information about retail product sales and demand for sensor technology. Accordingly, any rapid cessation of purchases or a switch to other companies' products by end users may not be immediately evident to us, and could result in increased product returns.

We have enhanced our website at [www.flexpoint.com](http://www.flexpoint.com) to include videos on our current projects and also intend to market our products through the use of other social media, and by developing a field sales force which includes direct marketing employees in strategic areas and potentially manufacturer’s representatives nationwide to generate OEM and Tier 1 supplier customers. As our market grows we anticipate expanding our distribution network throughout the world. There can be no assurance that we will be successful in developing such a sales force or in expanding our distribution network.

License and supply arrangements, such as those discussed above, create certain risks for us, including:

- Reliance for sales of products on other parties and, therefore, reliance on the other parties' marketing ability, marketing plans and credit-worthiness;
- If our products are marketed under other parties' labels, goodwill associated with use of the products may inure to the benefit of the other parties rather than Flexpoint Sensor Systems;
- We may have only limited protection from changes in manufacturing costs and raw materials costs; and
- If we are reliant on other parties for all, or substantially all, of our sales we may be limited in our ability to negotiate with such other parties upon any renewals of their agreements.

## MANUFACTURING AND DISTRIBUTION

Automobile manufacturers, Tier 1 suppliers and many international companies require all parts to be manufactured in ISO/TS-16949 certified facilities. ISO/TS-16949 is a Quality Management System that contains the particular requirements for the application of ISO 9001:2000 for automotive production and relevant service part organization. TS-16949 is based on ISO requirements 9001:2000, but contains additional requirements that are specific to the automotive industry. These additions are considered automotive “interpretations” by the ISO community of accreditation bodies and registrars. TS-16949 is a common supplier quality standard for Fiat Chrysler Automobiles, Ford Motor Company and General Motors Corporation. TS-16949 applies to suppliers of production materials, production and service parts, heat treating, painting and plating and other finishing services. It does not, therefore, apply to all suppliers of the major automotive companies.

When volumes dictate, our goal will be to qualify our production line and facility as an ISO/TS 16949 production line and facility as it is required for manufacturing automotive and related parts. Until such time as we have sufficient volumes we have entered into an agreement with the Walker Component Group to assist in meeting these qualifications now. The Walker Component Group is a well-established manufacturing company with expertise and certifications, including ISO 9001:2008, ROHS and REACH certifications that will dramatically enhance Flexpoint’s assembly infrastructure and assist to market products such as those that have been developed with HTK Engineering and InterTek. With numerous Fortune 100 clients, the Walker Component Group will add considerable experience, prestige, and confidence to every project that it enters into with Flexpoint. This agreement will increase the marketability of our products to automotive Tier 1 and major parts suppliers.

## SOURCE OF RAW MATERIALS

The Bend Sensor<sup>®</sup> product consists of a coated substrate, such as plastic, that changes in electrical conductivity as it is bent. Electronic systems connect to the sensor and measure with fine detail the amount of bending or movement that occurs. The single layer design of the Bend Sensor<sup>®</sup> eliminates many of the problems associated with conventional sensors such as dust, dirt, liquids, heat or pressure. Depending on the application an over-laminate or over-molding may also be applied to the sensors for added environmental

protection. Due to its unique construction and the ability to use multiple types of substrates, all raw materials needed to produce the Bend Sensor<sup>®</sup> are readily available and therefore the Company is not reliant on a single supplier.

## STATUS OF PUBLICALLY ANNOUNCED NEW PRODUCTS AND SERVICES

We have continued to mature from a research and development company into a manufacturing and production company and continue to expand our product line. From 2008 and through 2016 we improved and enhanced the design of products in the automotive, medical, shoe and industrial industries and have cultivated relationships with a limited customer base within these industries. We have designed, manufactured and built various testing prototypes and advanced our overall relationships which we believe will be advantageous and will generate significant revenues in the near future. We have filed patent continuations noting the enhancements and improvements developed over the past several years which could prolong the protection under this and our other patents. We are also reviewing the option of filing additional patents on specific applications and devices that use our Bend Sensor<sup>®</sup> technology.

## COMPETITION

The sensor business is highly competitive and competition is expected to continue to increase. We will compete directly with firms that have longer operating histories, more experience, substantially greater financial resources, greater size, more substantial research and development and marketing organizations, established distribution channels and are better situated in the market. We do not yet have an established long term customer base that orders products on a constant basis and we will encounter a high degree of competition as we develop a larger customer base.

To management's knowledge, technology similar to our technology is currently in production by other competitors. Management believes that our products will be sufficiently distinguishable from the existing products so that it will not compete directly with existing sensor products. Certain force transducer sensors and fiber optic sensors are comparable to our Bend Sensor<sup>®</sup> technology; however, management believes that the force transducer sensor is not as reliable as our Bend Sensor<sup>®</sup> technology and that the fiber optic sensors are not as cost effective as our Bend Sensor<sup>®</sup> technology. As this new area grows, additional manufacturers may attempt to introduce similar products and competition could intensify.

In the medical electronics field, our competitors are the potentiometer manufacturers. In the auto seat field our competitors are the numerous capacitive, piezo, infrared, force sensor resister and ultrasonic sensor manufacturers. Such competitors may use their economic strength and relationships to influence the market to continue to buy their existing products. One or more of these competitors could use their resources to improve their current products or develop new products that may compete more effectively with our products. New competitors may emerge and may develop products and capabilities which compete directly with our products. No assurance can be given that we will be successful in competing in the industries identified or in other industries that would benefit from our Bend Sensor<sup>®</sup> technology.

We intend to compete by offering products that have enhanced value, added features, ease of use, functionality, compatibility, reliability, comparable price, quality and support. Management also believes our intellectual property provides an advantage over current competitors. Although management believes that our products will be well received in the various sensor markets because of their innovative features, performance characteristics and cost-effective pricing, there can be no assurance that comparable or superior products incorporating more advanced technology or other features or having better price or performance characteristics will not be introduced by competitors with greater resources than ours.

## PATENTS AND INTELLECTUAL PROPERTY

We regard certain of our designs as proprietary and attempt to protect them with patents and by restricting disclosure of the designs as trade secrets. We have five issued patents for our Bend Sensor<sup>®</sup> technology and have exclusive rights to additional patents and intellectual property, and are in the process of preparing additional patents for new types of sensors and devices using our technology. Due to the joint development of the medical bed product, we believe we also have claims and protection under the patents filed for this specific application. Patents do expire and it will be necessary for us to file patents in the United States and in various foreign countries for each application we develop so that it is protected from competition. We also have products that use our unique sensor technology and we are exploring the viability of filing new patents based on the enhancements and the specific applications or value added products. We must file patents on any technology for which we develop enhancements that contain material improvements to the original technology, thereby extending the original life of our original patents. We are aware of three potentially conflicting patents which we believe will not affect our current or planned use of our technology.

There can be no assurance that the protection provided by patents and patent applications, if issued, will be broad enough to prevent competitors from introducing similar products or that such patents, if challenged, will be upheld by the courts of any jurisdiction.

Patent infringement litigation, either to enforce our patents or defend us from infringement suits, are expensive and could divert resources from other planned uses.

Patent applications filed in foreign countries and patents in those countries are subject to laws and procedures that differ from those in the United States. Patent protection in foreign countries may be different from patent protection under United States laws and may not be as favorable to us. We also attempt to protect our proprietary information through the use of confidentiality agreements and by limiting access to our facilities. There can be no assurance that our program of patents, confidentiality agreements and restricted access to our facilities will be sufficient to protect our proprietary technology.

Management believes that because of the rapid pace of technological change in our markets, legal protection of our proprietary information is less significant to our competitive position than factors such as continuing product innovation in response to evolving industry standards, technical and cost-effective manufacturing expertise, effective product marketing strategies and customer service. Without legal protection; however, it may be possible for third parties to commercially exploit the proprietary aspects of our products.

## MAJOR CUSTOMERS

Currently, we have a limited customer base and for the year ending 2016, two customers represented approximately 58% of the Company's revenue. Nypro Guadalajara SA represented approximately 38% and Ford Motor Company, represented approximately 20% of the Company's revenue. This high concentration was primarily related to manufacturing of sensors for the toy industry and engineering and design work in the automotive and medical industries. At the end of the 2016 year, the Company had a backlog of production orders for the toy industry.

## RESEARCH AND DEVELOPMENT

Although we hold the patent to the basic Bend Sensor<sup>®</sup> technology, as well as other applications, there will be other competitors working to develop competing technologies. To stay on the forefront of the technology, and to serve the needs of the customer, we will need to aggressively pursue improvements to existing systems and develop new systems as well. For the year ended December 31, 2016 we spent \$318,445 in research and development, primarily enhancing specific applications for the automotive, medical and sports industries with our Bend Sensor<sup>®</sup> technology, and testing Bend Sensor<sup>®</sup> applications for and in new products. This compares to \$279,138 spent on research and development for the year ended December 31, 2015 related to development engineering for new product development resulting in potential of new patents and testing of products for marketable applications.

We believe that our coatings for the Bend Sensor<sup>®</sup> product are difficult to duplicate. We are aware that we must develop new coatings to fit emerging customer needs and to stay ahead of the competition. There can be no assurance that we will be successful in developing new coatings. While we expect that future research and development efforts, if any, will lead to the filing of additional patent applications, there can be no assurance that any additional patent filings will be forthcoming.

## EMPLOYEES

As of the date of this filing we have 5 full time employees and employ 3 to 5 sub-contractors and multiple consultants. Until we are under full production with some of our products we will continue to use sub-contractors and consultants which helps to keep our overall labor cost to a minimum. Our employees are not presently covered by any collective bargaining agreement. We have not experienced any work stoppages and believe that our relations with our employees are good.

## ITEM 1A. RISK FACTORS

### *Factors Affecting Future Performance*

#### We have a history of losses and may never become profitable.

We are currently unable to fund our day-to-day operations from revenues and the limited revenues have impeded our continued growth and have caused delays in our business development. We have generated operating capital from private placements and the use of convertible notes that have helped fund our operations in the past. During 2016, we recorded a net loss of \$2,093,184 and, as of the date of this filing, we are unsure that total revenues in 2017 will be sufficient to support our planned manufacturing operations, pay off existing debt and fund all of our research and development. In addition, with the economic uncertainties we have had to further expand our business activities to include additional markets; therefore, we anticipate needing to raise an additional funding. We may be required to rely on further debt financing, further loans from related parties, and private placements of our common stock for our additional cash needs. Such funding sources may not be available or the terms of such funding sources may not be acceptable to the Company. If the Company is unable to find such funding it could have a material adverse effect on our ability to continue as a going concern.

We may not have adequate experience to successfully manage anticipated growth.

Since emerging from bankruptcy we restructured our management team and brought in an experienced group of executive level management personnel to direct and grow our business operations. However, we may not be equipped to successfully manage any possible future periods of rapid growth or expansion, which could be expected to place a significant strain on our managerial, operating, financial and other resources. Our future performance will depend, in part, on our ability to manage growth effectively, which will require us to:

- improve existing, and implement new, financial controls and systems, management information systems, operating, administrative, financial and accounting systems and controls,
- maintain close coordination between engineering, programming, accounting, finance, marketing, sales and operations, and
- attract and retain additional qualified technical and marketing personnel.

There is intense competition for management, technical and marketing personnel in our business. The loss of the services of any of our key employees or our failure to attract and retain additional key employees could have a material adverse effect on our ability to continue as a going concern.

Our success is dependent on our intellectual property rights which are difficult to protect.

Our future success depends on our ability to protect our intellectual property. We use a combination of patents and other intellectual property arrangements to protect our intellectual property. There can be no assurance that the protection provided by our patents will be broad enough to prevent competitors from introducing similar products or that our patents, if challenged, will be upheld by courts of any jurisdiction. Patent infringement litigation, either to enforce our patents or defend ourselves from infringement suits, will be expensive and could divert our limited resources from other planned uses. Patent applications filed in foreign countries and patents in these countries are subject to laws and procedures that differ from those in the U.S. and may not be as favorable to us. We also attempt to protect our confidential information through the use of confidentiality agreements and by limiting access to our facilities. There can be no assurance that our program of patents, confidentiality agreements and restricted access to our facilities will be sufficient to protect our confidential information from competitors.

Research and development may result in problems which may become insurmountable to full implementation of production.

Customers request that we create prototypes and perform pre-production engineering, research and development. As a result, we are exposed to the risk that we may find problems in our designs that are insurmountable to fulfill production. In that event, we will be unable to recover the costs of the pre-production engineering, research and development. However, we are currently unaware of any insurmountable problems with ongoing engineering, research and development that may prevent further development of an application and products.

Because we are significantly smaller than the majority of our competitors, we may lack the financial resources needed to capture increased market share.

The market for sensor devices is extremely competitive, and we expect that competition will intensify in the future. There can be no assurance that we will be able to compete successfully against current or future competitors or that competitive pressures we face will not materially adversely affect our business, operating results or financial condition. We believe that none of our competitors have a product that is superior to our Bend Sensor<sup>®</sup> technology at this time. However, many of our competitors and potential competitors have substantially greater financial, technical and marketing resources, larger customer bases, longer operating histories, greater name recognition and more established relationships than we do. These competitors may be able to undertake more extensive marketing campaigns, adopt more aggressive pricing policies and devote substantially more resources to developing new products and markets than we can.

Ongoing industry consolidation among worldwide automotive parts suppliers may limit the market potential for our products.

In the automotive parts industry, there has been a trend of consolidation through business combinations and acquisitions of complementary technologies among worldwide suppliers as these suppliers seek to build stronger customer relationships with automobile manufacturers. Automobile manufacturers look to Tier 1 suppliers (major suppliers) to provide fully engineered systems and pre-assembled combinations of components rather than individual components. This trend of consolidation of suppliers may result in fewer Tier 1 suppliers and thus limit the marketing opportunities for our Bend Sensor<sup>®</sup> technology. These industry trends may limit the market for our products in these industries.

## ITEM 2. PROPERTIES

We currently occupy approximately 11,639 square feet of office and manufacturing space from American Covers, Inc., dba Handstands. In 2014 the Company extended the operating lease agreement for its manufacturing facility in Draper, Utah. Under the terms of a three year lease extension effective January 1, 2015, the monthly rent remained at \$8,950 per month for 2015 and increased thereafter to \$9,300 per month for 2016 and will increase to \$9,600 per month for 2017. The lease may be terminated by either party with a 90 day written notice period. The building is located in a business park in Draper, Utah which consists primarily of high tech manufacturing firms and it is located adjacent to Utah's main interstate highway.

## ITEM 3. LEGAL PROCEEDINGS

We are not a party to any legal proceedings as of the date of this filing.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable to our operations.

## PART II

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

#### MARKET INFORMATION

Our common stock is quoted on the Financial Industry Regulatory Authority ("FINRA") OTC Bulletin Board under the symbol "FLXT." The following table lists the range for the high and low trading prices of our common stock for each quarter for the years ended December 31, 2016 and 2015, respectively, as reported by the OTC Bulletin Board. Over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-downs or commissions, and may not necessarily represent actual transactions.

<u>Fiscal Quarter Ended</u>	<u>2016</u>		<u>2015</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
March 31	\$ 0.11	\$ 0.05	\$ 0.35	\$ 0.13
June 30	0.07	0.03	0.25	0.11
September 30	0.20	0.06	0.14	0.08
December 31	0.10	0.07	0.15	0.07

Our shares are subject to Section 15(g) and Rule 15g-9 of the Securities and Exchange Act, commonly referred to as the "penny stock" rule. The rule defines penny stock to be any equity security that has a market price less than \$5.00 per share, subject to certain exceptions. These rules may restrict the ability of broker-dealers to trade or maintain a market in our common stock and may affect the ability of shareholders to sell their shares. Broker-dealers who sell penny stocks to persons other than established customers and accredited investors must make a special suitability determination for the purchase of the security. Accredited investors, in general, include individuals with assets in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 together with their spouse, and certain institutional investors. The rules require the broker-dealer to receive the purchaser's written consent to the transaction prior to the purchase and require the broker-dealer to deliver a risk disclosure document relating to the penny stock prior to the first transaction. A broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative, and current quotations for the security. Finally, monthly statements must be sent to customers disclosing recent price information for the penny stocks.

#### HOLDERS

As of April 14, 2017, we had approximately 473 stockholders of record of our common stock, which does not include "street accounts" of securities brokers.

## DIVIDENDS

We have not paid cash or stock dividends and have no present plan to pay any dividends. We intend to retain any earnings to finance the operation and expansion of our business and the payment of any cash dividends on our common stock is unlikely. However, our board of directors may revisit this matter from time to time and may determine our earnings, financial condition, capital requirements and other factors allow the payment of dividends.

## RECENT SALES OF UNREGISTERED SECURITIES

On November 21, 2016, the Board of Directors issued 2,700,000 shares of restricted common stock to Liberty Partners, LLC to convert debt, plus interest, valued at \$136,618. We relied on an exemption from the registration requirements provided by Section 4(a) (2) of the Securities Act.

On November 22, 2016, the Board of Directors issued 3,950,000 shares of restricted common stock to Compass Equity Partners, LLC to convert notes payable of \$160,000. We relied on an exemption from the registration requirements provided by Section 4(a) (2) of the Securities Act.

## ISSUER PURCHASE OF SECURITIES

None.

## **ITEM 6. SELECTED FINANCIAL DATA**

Not applicable to smaller reporting companies.

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

### EXECUTIVE OVERVIEW

Flexpoint Sensor Systems, Inc. is a company engaged principally in improving its unique sensor technology, expanding its suite of products, developing new sensor applications, obtaining financing and seeking long-term sustainable manufacturing contracts. Our operations have not yet commenced to a commercially sustainable level and include designing, engineering, manufacturing and selling sensor technology and products featuring our Bend Sensor<sup>®</sup> technology and equipment.

Finalizing long-term, constant revenue generating production contracts with our existing and other customers remains our greatest challenge because our on-going business is dependent on the types of revenues and cash flows generated by such contracts. Cash flow and cash requirement risks are closely tied to and are dependent upon our ability to attract significant long-term production contracts. We must continue to obtain funding to operate and expand our operations so that we can deliver our unique Bend Sensor<sup>®</sup> and Bend Sensor<sup>®</sup> related technologies and products to the market. Management believes that even though we are making positive strides forward with our business plan we will need to raise additional operating capital. Over the last year we have made significant progress within the automotive and toy industries and, based upon that progress, we believe that over the next twelve months we will have signed various long-term contracts that should produce sufficient volumes to provide ongoing revenues streams to support our operations.

While all sectors of the economy have experienced difficult times since the recent recession, many, including the automotive industry, have seen a turn-around in overall sales. Worldwide automakers are faced with the challenge of providing a safer, more energy efficient, longer lasting product that consumers can afford. This has required automakers to search new and innovative ways to lower the overall weight of the vehicle and to improve its fuel efficiencies, while lowering the cost. We continue to experience an increased interest regarding automotive and other potential applications for our sensor technology because they meet this criterion. With its versatility, light weight, single layer construction and the fact that it is currently being used in various safety devices the Bend Sensor<sup>®</sup> is positioned well to meet the challenges that the automobile industry is facing.

### LIQUIDITY AND CAPITAL RESOURCES

Currently our revenue is primarily from design contract, testing and limited production services for prototypes and samples, and is not to a level to support our operations. However, we believe, based upon current orders and projected orders over the next twelve months, that we could be producing sensors under long-term contracts that will help support our existing operations and potential future growth. Management recognizes such contracts usually go through a long negotiation process and there can be no guarantee

that we will be successful in our negotiations or that such contracts will be sufficient to support our current operations in the near future.

For the past twelve months we have relied on the proceeds of convertible loans from existing shareholders and private placements of our common stock. During 2016 and 2015, the Company secured financing to fund its operations by issuing additional convertible notes to Capital Communications LLC, Liberty Partners and an officer, the balances of which were \$1,204,660 and \$848,457 as of December 31, 2016 and 2015, respectively. The notes have an annual interest rate of 10%, have various maturity dates, and are secured by the Company's business assets.

Management believes that our current cash burn rate is approximately \$60,000 per month and that proceeds from additional convertible notes and estimated revenues for engineering design and prototype products will be sufficient to fund the next twelve months of operations. Our auditors have expressed doubt about our ability to continue as a going concern and that we may not realize significant revenue or become profitable within the next twelve months. We will require additional financing to fund our short-term cash needs. We will have to rely on additional debt financing, loans from existing shareholders and private placements of common stock for additional funding. Based upon our current purchase orders and anticipated purchase orders over the next twelve months our projected revenues by the end of 2017 are anticipated to cover our projected operating expenses, based on our current burn rate. However, we cannot assure you that we will be able to obtain short-term financing, or that sources of such financing, if any, will continue to be available, and if available, that they will be on terms favorable to us. Nor is there any guarantee that the projected volume of purchase orders will meet the volumes that we anticipate.

We also expect that in the short term we may have to continue to issue common stock to pay for services and agreements rather than use our limited cash resources. Any issuance of common stock will likely be pursuant to exemptions provided by federal and state securities laws. The purchasers and manner of issuance will be determined according to our financial needs and the available exemptions. We also note that if we issue more shares of our common stock our shareholders may experience dilution in the value per share of their common stock.

As we enter into new agreements, we must ensure that those agreements provide adequate funding for any pre-production research and development and manufacturing costs. If we are successful in establishing agreements with adequate initial funding, management believes that our operations for the long term will be funded by revenues, licensing fees and/or royalties related to these agreements.

However, we have formalized only a few agreements during the past four years and there can be no assurance that the agreements will generate sufficient revenues or be profitable in the future or that a desired technological application will be successful enough to produce the volumes and profits necessary to fund our operations.

## COMMITMENTS AND CONTINGENCIES

Our principal commitments at December 31, 2016 consist of total current liabilities of \$2,196,755, which includes \$1,204,660 in convertible notes.

Our long term lease of our manufacturing facility was extended effective January 1, 2015 to expire December 31, 2017. Minimum lease payments for the remaining term of the extension are \$115,200.

Our total current liabilities include accounts payable of \$172,602 related to normal operating expenses, including health insurance, utilities, production supplies, legal expenses and travel expense. In addition there is \$1,420 in accounts payable owed to an officer of the Company. Accrued liabilities at December 31, 2016, were \$741,778 and were related to payroll tax liabilities, tax expenses, accrued interest, investor relations consulting, and accrued Paid Time Off, a combination vacation-sick leave policy.

## OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources and would be considered material to investors.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Estimates of particular significance in our financial statements include goodwill and the annual tests for impairment of goodwill and valuing stock option compensation.



We annually test long-lived assets for impairment or when a triggering event occurs. Impairment is indicated if undiscounted cash flows are less than the carrying value of the assets. The analysis compared the present value of projected net cash flows for the remaining current year and next two years against the carrying value of the long-lived assets. Under similar analysis no impairment charge was taken during the twelve months ended December 31, 2016 or the twelve months ended December 31, 2015. Impairment tests will be conducted on a regular basis and, should they indicate a carrying value in excess of fair value, additional charges may be required.

We account for stock options under Statement of Financial Accounting Standards, Accounting Standards Codification Topic 718, Stock Compensation. The pronouncement requires that recognition of the cost of employee services received in exchange for stock options and awards of equity instruments be based on the grant-date fair value of such options and awards and is recognized as an expense in operations over the period they vest. The fair value of the options we have granted is estimated at the date of grant using the Black-Scholes American option-pricing model. Option pricing models require the input of highly sensitive assumptions, including expected stock volatility. Also, our stock options have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimate. Management believes the best input assumptions available were used to value the options and that the resulting option values are reasonable. For the years ended December 31, 2016 and 2015 we recognized \$26,154 and \$248,656, respectively, of stock-based compensation expense for our stock options and there is no additional unrecognized compensation cost related to employee stock options that will be recognized based upon the current grants issued.

## RESULTS OF OPERATIONS

The following discussions are based on the consolidated operations of Flexpoint Sensor Systems, Inc. and its former subsidiaries, Sensitron, Inc. and Flexpoint International, LLC, and should be read in conjunction with our audited financial statements for the years ended December 31, 2016 and 2015. These financial statements are included in this report at Part II, Item 8, below.

### SUMMARY OF OPERATING RESULTS

	For the year ended <u>December 31, 2016</u>	For the year ended <u>December 31, 2015</u> (revised)
Engineering, contract and testing revenue	\$ 314,494	\$ 138,347
Total operating costs and expenses	(1,303,018)	(1,283,237)
Net other income (expense)	(1,104,660)	(1,597,140)
Net loss	(2,093,184)	(2,742,030)
Basic and diluted loss per common share	(0.03)	(0.05)

Our revenue for 2016 increased as compared to 2015 and was primarily from manufacturing of sensors for the toy industry, design and development engineering, prototype products and sales of our fully integrated products. Revenue from research and development engineering and prototype product contracts is recognized as the services are provided and accepted by the customer. Revenue from contracts to license technology to others is deferred until all conditions under the contract are met and then the sale is recognized as licensing royalty revenue over the remaining term of the contract. Revenue from the sale of a product is recorded at the time of shipment to the customer. Management anticipates that revenue will increase as we continue to provide engineering services and our customers continue to order more frequently and in larger quantities.

Total operating costs and expenses increased in 2016 when compared to 2015 by \$19,781. As we work to commercialize products and establish distribution channels we are also working to bring greater efficiencies and cost reductions to our operations. Accordingly, administrative and marketing expenses decreased to \$878,584 for 2016 compared to \$896,003 in 2015, a decrease of \$17,419. The cost of revenue in 2016 increased as a result of the significantly higher sales levels. Amortization of patents and proprietary technology expense decreased in 2016 as some of the intellectual property became fully amortized during 2016. During the fourth quarter of 2016 we purchased a piece of equipment to bring efficiency to our production.

Total other expense for the year ending December 31, 2016 was \$1,104,660 compared to \$1,597,140 in 2015. Other expense is comprised primarily of interest expense of \$1,068,389 in 2016, compared to interest expense of \$1,591,993 in 2015. Of the charges in 2016, \$922,327 results from non-cash beneficial conversion discount feature charges related to convertible notes. In 2016 we recognized a loss on extinguishment of debt of \$915. In 2015 we recognized a \$156,743 gain on the conversion of debt to stock and a loss on extinguishment of debt of \$168,286.

As we continued to mature into a manufacturing company our engineering design and production revenues increased as a percent of our total revenue. As we expand and sell our existing suite of products and as we grow the relationship with our customers we expect this trend to continue in the future. We are not able to guarantee that our operating losses will be reduced in the short term. The chart below presents a summary of our consolidated balance sheets at December 31, 2016 and 2015.

#### SUMMARY OF BALANCE SHEET INFORMATION

	<u>Year ended</u> <u>December 31, 2016</u>	<u>Year ended</u> <u>December 31, 2015</u>
Cash and cash equivalents	\$ -	\$ 22,706
Total current assets	93,847	220,018
Total assets	5,104,495	5,302,777
Total liabilities	2,196,755	781,108
Accumulated deficit	(26,222,811)	(24,129,627)
Total stockholder's equity	\$ 2,907,740	\$ 4,521,669

Cash and cash equivalents decreased by \$22,706 in 2016 compared to 2015. Until such time as our revenue increases, our cash and assets will decrease as we fund our operations. As we expand our customer base and product offerings we will need to raise additional operating capital during 2017. It is expected that this will be accomplished by securing additional loans from related parties and existing shareholders, through the private placement of stock, or through the licensing of our technology. We anticipate that we will need to raise approximately \$750,000 to \$1,000,000 in funding to support our existing operations and our anticipated growth during 2017.

Our current assets decreased to \$93,847 during the year ending December 31, 2016 compared to \$220,018 during the same period in 2015. This decrease is primarily due to a decrease in cash, and decreases in accounts and notes receivable. The decrease in our non-current assets at December 31, 2016 compared to 2015 is due to the amortization associated with our long-lived assets. These assets include property and equipment, patents and proprietary technology and goodwill.

Accrued liabilities increased at December 31, 2016 by \$366,534 when compared to December 31, 2015. The increase is primarily due the accrual of charges for investor relations services and for the accrual of interest expense related to notes payable. Total liabilities increased by \$1,575,647 at December 31, 2016 as the result of the increase in accrued liabilities, the recognition of derivative liabilities, and the issuance of additional convertible notes payable.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES  
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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of  
Flexpoint Sensor Systems, Inc.

We have audited the accompanying consolidated balance sheets of Flexpoint Sensor Systems, Inc. (“the Company”) as of December 31, 2016 and 2015, and the related consolidated statements of operations, stockholders’ equity, and cash flows for each of the years in the two year period ended December 31, 2016. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Flexpoint Sensor Systems, Inc. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the two year 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 to the consolidated financial statements, the Company has suffered net losses since inception and has accumulated a significant deficit. These factors raise substantial doubt about its ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

*/s/ Sadler, Gibb & Associates, LLC*

Salt Lake City, UT  
April 17, 2017

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**FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		(revised)
<b>Current Assets</b>		
Cash and cash equivalents	\$ -	\$ 22,706
Accounts receivable, net of allowance of \$102,140 and \$7,140	84,499	98,557
Notes receivable, net of allowance of \$86,806 and \$0	-	86,806
Deposits and prepaid expenses	9,348	11,949
<b>Total Current Assets</b>	93,847	220,018
<b>Long-Term Deposits</b>	6,550	6,550
<b>Property and Equipment</b> , net of accumulated depreciation of \$586,767 and \$586,394	10,823	-
<b>Patents and Proprietary Technology</b> , net of accumulated amortization of \$876,037 and \$793,103	96,358	179,292
<b>Goodwill</b>	4,896,917	4,896,917
<b>Total Assets</b>	\$ 5,104,495	\$ 5,302,777
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 172,602	\$ 160,437
Accounts payable - related party	1,420	322
Accrued liabilities	741,778	375,244
Convertible notes payable, net of discount of \$0 and \$763,352	1,184,660	205,105
Convertible notes payable to related party, net of discount of \$0 and \$0	20,000	40,000
Derivative liabilities	76,295	-
<b>Total Liabilities</b>	2,196,755	781,108
<b>Commitments and contingencies</b>	-	-
<b>Stockholders' Equity</b>		
Preferred stock – \$0.001 par value; 1,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock – \$0.001 par value; 100,000,000 shares authorized; 78,363,464 shares and 71,627,114 shares issued and outstanding, respectively	78,363	71,627
Stock subscriptions receivable	-	9,958
Additional paid-in capital	29,052,188	28,569,711
Accumulated deficit	(26,222,811)	(24,129,627)
<b>Total Stockholders' Equity</b>	2,907,740	4,521,669
<b>Total Liabilities and Stockholders' Equity</b>	\$ 5,104,495	\$ 5,302,777

The accompanying notes are an integral part of these consolidated financial statements

**FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>For the Years</b>	
	<b>Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
		(revised)
<b>Engineering, Contract and Testing Revenue</b>	\$ 314,494	\$ 138,347
<b>Operating Costs and Expenses</b>		
Amortization of patents and proprietary technology	82,934	101,389
Cost of revenue	23,055	6,707
Administrative and marketing expense	878,584	896,003
Research and development expense	318,445	279,138
<b>Total Operating Costs and Expenses</b>	1,303,018	1,283,237
<b>Other Income (Expense)</b>		
Interest expense	(1,068,389)	(1,591,993)
Interest income	47	6,396
Loss on extinguishment of debt	(915)	(168,286)
Gain on stock debt exchange	-	156,743
Loss on change in fair value of derivative liabilities	(35,403)	-
<b>Net Other Income (Expense)</b>	(1,104,660)	(1,597,140)
<b>Net Loss</b>	\$ (2,093,184)	\$ (2,742,030)
<b>Basic and Diluted Loss Per Common Share</b>	\$ (0.03)	\$ (0.05)
<b>Basic and Diluted Weighted-Average Common Shares Outstanding</b>	72,404,678	60,339,443

The accompanying notes are an integral part of these consolidated financial statements

**FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**For the Years Ended December 31, 2015(revised) and 2016**

	Common	Stock	Additional	Subscri	Accumulated	Total
	Shares	Amount	Paid-in	ptions	Deficit	Stockholder
			Capital	Receiva		Equity
				ble		
<b>Balance - December 31, 2014</b>	53,377,114	\$ 53,377	\$ 24,990,927	-	\$ (21,387,594)	\$ 3,656,710
Beneficial conversion features	-	-	2,287,505	-	-	2,287,505
Shares issued for convertible notes	14,850,000	14,850	760,223	-	-	775,073
Shares issued in settlement of accrued liabilities	3,400,000	3,400	282,400	-	-	285,800
Stock subscription receivable	-	-	-	9,958	-	9,958
Stock options issued	-	-	248,656	-	-	248,656
Net loss	-	-	-	-	(2,742,030)	(2,742,030)
<b>Balance – December 31, 2015</b>	71,627,114	71,627	28,569,711	9,958	(24,129,627)	4,521,669
Prior-period adjustments	-	-	-	-	(160,000)	(160,000)
Beneficial conversion features	-	-	118,083	-	-	118,083
Shares issued for convertible notes	6,650,000	6,650	328,368	-	-	335,018
Stock issued for stock subscription	86,350	86	9,872	(9,958)	-	-
Stock options issued	-	-	26,154	-	-	26,154
Net loss	-	-	-	-	(2,093,184)	(2,093,184)
<b>Balance - December 31, 2016</b>	78,363,464	\$ 78,363	\$ 29,052,188	-	\$ (26,222,811)	\$ 2,907,740

The accompanying notes are an integral part of these consolidated financial statements

**FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the Years Ended December 31,	
	2016	2015
<b>Cash Flows from Operating Activities:</b>		(revised)
Net loss	\$ (2,093,184)	\$ (2,742,030)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	373	-
Bad debt expense	181,806	4,539
Stock-based compensation	26,154	248,656
Stock subscription for compensation	-	9,958
Amortization of patents and proprietary technology	82,934	101,389
Amortization of discount on note payable	922,327	1,473,341
Loss (Gain) on extinguishment of debt	915	168,286
Loss (Gain) on conversion of notes payable to common stock	-	(156,743)
Loss (Gain) on change in fair value of derivative liabilities	35,403	-
Changes in operating assets and liabilities:		
Accounts receivable	(80,942)	(24,048)
Deposits and prepaid expenses	2,601	(60)
Accounts payable	12,165	(28,641)
Accounts payable – related party	1,098	(390)
Accrued liabilities	402,219	368,816
<b>Net Cash Used in Operating Activities</b>	<b>(506,131)</b>	<b>(576,927)</b>
<b>Cash Flows from Investing Activities:</b>		
Note receivable interest income	-	(6,336)
Payment for note receivable	-	(51,157)
Payment for equipment	(11,196)	-
Payments for patents	-	(2,181)
<b>Net Cash Used in Investing Activities</b>	<b>(11,196)</b>	<b>(59,674)</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from borrowings under note payable	-	51,000
Proceeds from borrowings under convertible note payable	460,000	590,000
Proceeds from borrowings under convertible note payable – related party	20,000	-
Proceeds from bank overdrafts	14,621	-
<b>Net Cash Provided by Financing Activities</b>	<b>494,621</b>	<b>641,000</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(22,706)</b>	<b>4,399</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>22,706</b>	<b>18,307</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ -</b>	<b>\$ 22,706</b>

**Supplemental Cash Flow Information:**

Cash paid for income taxes	\$ -	\$ -
Cash paid for interest	\$ -	\$ -

**Supplemental Disclosure on Noncash Investing and Financing Activities**

Convertible notes issued in debt extinguishments	\$ -	\$ 1,049,824
Recognition of discounts on convertible notes payable	\$ 137,426	\$ 2,287,505
Recognition of discounts on convertible notes payable	\$ 40,892	\$ -
Common shares issued in conversion of debt	\$ 335,018	\$ 775,073
Common shares issued in conversion of accrued liabilities	\$ -	\$ 285,800
Stock issued for subscription payable	\$ 9,958	\$ -

The accompanying notes are an integral part of these consolidated financial statements.



**FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 – NATURE OF BUSINESS**

**Nature of Operations** – Flexpoint Sensor Systems, Inc. (the Company) is located in Draper, Utah. The Company’s activities to date have included acquiring equipment and enhancing technology, obtaining financing, limited production and seeking long-term manufacturing contracts. The Company’s operations are in designing, engineering, manufacturing and selling sensor technology and equipment using flexible potentiometer technology. Through December 31, 2016 the Company continued to manufacture products and sensors to fill customer orders and provide engineering and design work.

**Principles of Consolidation** – The accompanying consolidated financial statements include the accounts of Flexpoint Sensor Systems, Inc. and its wholly owned subsidiary, Flexpoint International, LLC. Intercompany transactions and accounts have been eliminated in consolidation.

**Use of Estimates** – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

**Cash and Cash Equivalents** – Cash and cash equivalents are considered to be cash and a highly liquid security with original maturities of three months or less.

**Fair Value Measurements** - The fair value of a financial instrument is the amount that could be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk, including the party’s own credit risk.

Fair value measurements do not include transaction costs. A fair value hierarchy is used to prioritize the quality and reliability of the information used to determine fair values. Categorization within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is defined into the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is disclosed and is determined based on the lowest level input that is significant to the fair value measurement.

The carrying value of the Company’s cash, accounts payable, short-term borrowings (including convertible notes payable), and other current assets and liabilities approximate fair value because of their short-term maturity.

The Company has classified the inputs used in valuing its derivative liabilities as Level 3 inputs. The Company valued its derivatives using the binomial lattice model. While the Company believes that its valuation methods are appropriate and consistent with other market participants, it recognizes that the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. The primary assumptions that would significantly affect the fair values using the methods discussed below are that of volatility and market price of the underlying common stock of the Company.

**Accounts Receivable** – Trade accounts receivable are recorded at the time product is shipped or services are provided including any shipping and handling fees. Contracts associated with design and development engineering generally require a deposit of 50% of the quoted price prior to the commencement of work. The deposit is considered deferred income until the entire project is completed and accepted by the customer, at which time the entire contract price is billed to the customer and the deposit applied. The Company has established an allowance for bad debts based on a historical experience and an analysis of risk associated with the account balances. The balance in the allowance account was \$102,140 and \$7,140 in the years ended December 31, 2016 and 2015, respectively.

**Inventories** – Inventories are stated at the lower of cost or market. Cost is determined by using the first in, first out (FIFO) method.

**Going Concern**– The Company suffered losses of \$2,093,184 and \$2,742,030 and used cash in operating activities of \$506,131 and \$576,927 during the years ended December 31, 2016 and 2015, respectively. At December 31, 2016, the Company had an accumulated deficit of \$26,222,811. These matters raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

From 2008 through 2016 the Company raised \$4,959,278 in additional capital, including accrued interest, through the issuance of long and short-term notes to related and other parties. All of the notes had an annual interest rate of 10% or 15% and were secured by the Company's business equipment. The notes also had a conversion feature for restricted common shares ranging from \$0.05 to \$0.20 per share with maturity dates of December 31, 2016. In October 2015, the Company issued 3,400,000 shares of its restricted common stock to extinguish \$330,000 of accrued liabilities arising from investor relations services at an average price of \$0.084 per share. In November and December of 2015, \$470,000 in convertible notes were converted into 9,400,000 shares of the Company's restricted common stock at a conversion price of \$0.05 per share.

In June of 2016 a stock subscription in the amount of \$9,958 was converted into 86,350 shares of restricted common stock. In November of 2016, \$335,018 in convertible notes and accrued interest were converted into 6,650,000 shares of restricted common stock at an average conversion price of approximately \$0.05 per share.

**Property and Equipment** – Property and equipment are stated at cost. Additions and major improvements are capitalized while maintenance and repairs are charged to operations. Upon trade-in, sale or retirement of property and equipment, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is recognized. Depreciation is computed using the straight-line method and is recognized over the estimated useful lives of the property and equipment, which range from three to ten years.

**Valuation of Long-lived Assets** – The carrying values of the Company's long-lived assets are reviewed for impairment annually and whenever events or changes in circumstances indicate that they may not be recoverable. When projections indicate that the carrying value of the long-lived asset is not recoverable, the carrying value is reduced by the estimated excess of the carrying value over the projected discounted cash flows. Under similar analysis no impairment charge was taken during the year ended December 31, 2016. Impairment tests will be conducted on an annual basis and, should they indicate a carrying value in excess of fair value, additional impairment charges may be required.

**Intangible Assets** – Costs to obtain or develop patents are capitalized and amortized over the remaining life of the patents, and technology rights are amortized over their estimated useful lives. The Company currently has the right to several patents and proprietary technology. Patents and technology are amortized from the date the Company acquires or is awarded the patent or technology right, over their estimated useful lives, which range from 5 to 15 years. An impairment charge is recognized if the carrying amount is not recoverable and the carrying amount exceeds the fair value of the intangible assets as determined by projected discounted net future cash flows. Under similar analysis there was no impairment charge taken during the year ended December 31, 2016.

**Research and Development** – Research and development costs are recognized as an expense during the period incurred, which is until the conceptual formulation, design, and testing of a process is completed and the process has been determined to be commercially viable.

**Goodwill** – Goodwill represents the excess of the Company's reorganization value over the fair value of net assets of the Company upon emergence from bankruptcy. Goodwill is not amortized, but is tested for impairment annually, or at interim periods when a triggering event occurs using a fair value approach. According to Accounting Standards Codification (or "ASC") 350-20 Intangibles – Goodwill and Other, a fair-value-based test is applied at the overall Company level. The test compares the fair value of the Company to the carrying value of its net assets. This test requires various judgments and

estimates. The fair value of the Company is allocated to the Company's assets and liabilities based upon their fair values with the excess fair value allocated to goodwill. An impairment of goodwill is measured as the excess of the carrying amount of goodwill over the determined fair value.

**Revenue Recognition** – Revenue is recognized when persuasive evidence of an arrangement exists, services have been provided or goods delivered, the price to the buyer is fixed or determinable and collectability is reasonably assured. Revenue from the sale of products is recorded at the time of shipment to the customers. Revenue from research and development engineering contracts is recognized as the services are provided and accepted by the customer. Revenue from contracts to license technology to others is deferred until all conditions under the contracts are met and then recognized as licensing royalty revenue over the remaining term of the contracts. The Company does not provide extended warranties or guarantees on its products.

**Stock-Based Compensation** – The Company recognizes the cost of employee services received in exchange for stock options and awards of equity instruments based on the grant-date fair value of such options and awards, over the period they vest. All share-based compensation is measured at the grant date, based on the fair value of the award, and is recognized as an expense in operations over the requisite service period. For the years ended December 31, 2016 and 2015, the Company recognized expense for stock-based compensation of \$26,154 and \$248,656, respectively.

**Basic and Diluted Loss Per Share** – Basic loss per share is computed by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted loss per share is computed by dividing net loss by the weighted-average number of common shares and dilutive potential common shares outstanding during the period. At December 31, 2016 and 2015, there were outstanding common share equivalents (options and convertible notes payable) which amounted to 23,399,094 and 16,165,502, respectively, of common stock. These common share equivalents were not included in the computation of diluted loss per share as their effect would have been anti-dilutive, thereby decreasing loss per common share.

**Concentrations and Credit Risk** - The Company has a few major customers who represents a significant portion of revenue, accounts receivable and notes receivable. During the year ended December 31, 2016, a customer who manufactures toys represented 38% of sales and represented 17% of accounts receivable. A customer who is utilizing our technology for commercialization in shoes represented 68% of accounts receivable and 100% of notes receivable at December 31, 2016. The Company has a strong relationship with these customers and does not believe this concentration poses a significant risk, as their products are based entirely on the Company's technologies. The Company has the option, under one of the notes receivable, to convert the principal and interest into equity of the customer

**Income Taxes** - The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards Board Accounting Codification (ASC) 740: Income Taxes. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets will be reflected on the balance sheet when it is determined that it is more likely than not that the asset will be realized

**Recent Accounting Pronouncements** – In October 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-16, Income Taxes (Topic 740); *Intra-Entity Transfers of Assets Other Than Inventory*. This ASU requires entities to recognize the income tax consequences of many intercompany asset transfers at the transaction date. The seller and buyer will immediately recognize the current and deferred income tax consequences of an intercompany transfer of an asset other than inventory. The tax consequences were previously deferred until the asset is sold to a third part or recovered through use. This guidance will become effective on January 1, 2018.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230); *Classification of Certain Cash Receipts and Cash Payments*. This ASU addresses the following eight specific cash flow issues: Debt costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. This guidance will become effective on January 1, 2018. We do not expect the adoption of this ASU to have a material impact on our Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718); *Improvements to Employee Share-Based Payments Accounting*. The ASU changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as the classification of related matters in the statement of cash flows. This guidance will become effective January 1, 2017. We do not expect the adoption of this ASU to have a material impact on our Consolidated Financial Statements.

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, “Leases.” This ASU requires lessees to put most leases on their balance sheets but recognize expenses in the income statement in a manner similar to current accounting treatment. This ASU changes the guidance on sale-leaseback transactions, initial direct costs and lease execution costs, and, for lessors, modifies the classification criteria and the accounting for sales-type and direct financing leases. For public business entities, this ASU is effective for annual periods beginning after December 15, 2018, and interim periods therein. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Company is currently evaluating the impact of this ASU on its financial statements and disclosures.

The Company has reviewed all other FASB-issued ASU accounting pronouncements and interpretations thereof that have effective dates during the period reported and in future periods. The Company has carefully considered the new pronouncements that alter previous GAAP and does not believe that any new or modified principles will have a material impact on the company’s reported financial position or operations in the near term. The applicability of any standard is subject to the formal review of the Company’s financial management and certain standards are under consideration.

## **NOTE 2 – NOTES RECEIVABLE**

On June 23, 2010, the Company, along with David B. Beck, the Company's Director of Engineering, filed a complaint against R&D Products, LLC, Persimmon Investments, Inc. and Jules A. deGreef, the managing member of R&D Products, LLC. The complaint alleged that all of the intellectual properties owned by R&D Products and Mr. deGreef, specifically patented applications using Bend Sensor<sup>®</sup> technology that were filed jointly by Mr. Beck and Mr. deGreef, and later assigned solely to Mr. deGreef and R&D Products, are the property of the Company. The assignment by Mr. Beck of his rights in the patents and intellectual properties were improperly given and are the property of the Company. The Company believed that since Mr. Beck was an employee of the Company during the time that he became the primary creative force and inventor of the Bend Sensor<sup>®</sup> applications for R&D Products and Mr. deGreef, and the inventions and applications were created using Flexpoint resources, the Company claimed that such intellectual properties, patents, etc. filed by deGreef, Persimmon and R&D belong to Flexpoint and therefore is sought financial damages and ownership of all intellectual rights, patents and inventions created by Mr. Beck for deGreef, Persimmon and R&D Products.

On April 9, 2013, the parties of the above referenced litigation reached a favorable universal settlement agreement that reinforces the Company's rights to the intellectual properties and their related products, including the medical bed. In order to secure the Company had exclusive rights to all patents and intellectual properties associated with this litigation the Company advanced to Mr. deGreef \$25,000 to bring current all of the filing and maintenance fees for the patents detailed in the law suit. The advance is secured by a promissory note with an annual interest rate of 10% to be paid no later than December 31, 2015. During 2016 the Company established an allowance of \$31,813 for the note receivable from Mr. deGreef.

On April 1, 2015, the Company paid \$51,157 for the assumption and assignment of a convertible promissory note receivable issued by Bend Tech, LLC (“Bend Tech”; one of the Company’s customers – see also Note 1, *Concentrations and Credit Risk*) and held by a third-party Bend Tech investor (“the Investor”). The note bears interest at the rate of 10% per annum and had a maturity date of April 1, 2015. The agreement allows the holder, at its option, to convert the note to a 5% ownership of Bend Tech. The Company elected to take assignment of those conversion rights, reaching an agreement with the Investor to pay the principle and interest to the Investor at the due date. Bend Tech is expected to become a more significant customer of the Company as it begins its product introductions, and the Company elected to pay off the note and put itself in position to either receive the payment plus interest of convert the note into ownership of Bend Tech rather than have an outside investor make such conversion. As of the date of this report, the note is in default and the Company has not exercised its conversion option. The Company has recorded a bad debt expense charge for the full amount of the note. During 2016 the Company established an allowance of \$54,993 for the note receivable from Bend Tech LLC.

## **NOTE 3 – DERIVATIVE INSTRUMENTS**

The derivative liability as of December 31, 2016, in the amount of \$76,295 has a level 3 classification.

The following table provides a summary of changes in fair value of the Company’s Level 3 financial liabilities as of December 31, 2016 and 2015:

	<b>Total</b>
Balance, December 31, 2014	-
Recognition of derivative liabilities upon initial valuation	-
Change in fair value of derivative liabilities	-
Conversions of derivative liabilities into equity instruments	-
Balance, December 31, 2015	-
Recognition of derivative liabilities upon initial valuation	40,892
Change in fair value of derivative liabilities	35,403
Conversions of derivative liabilities into equity instruments	-
Balance, December 31, 2016	<u>76,295</u>

During the year ended 2016, the Company issued convertible promissory notes which are convertible into common stock. Due to the Company's lack of authorized shares necessary to settle all convertible instruments, in accordance with ASC 815-40-25, the Company determined that the conversion features related to these notes are derivative instruments since we do not have control to increase the number of authorized shares to settle all convertible instruments. The accounting treatment of derivative financial instruments requires that the Company record fair value of the derivatives as of the inception date of debenture and to fair value as of each subsequent reporting date.

At December 31, 2016, the Company marked to market the fair value of the derivatives and determined a fair value of \$76,295. The Company recorded a loss from change in fair value of derivatives of \$35,403 for the year ended December 31, 2016. The fair value of the embedded derivatives was determined using binomial lattice model based on the following assumptions: (1) dividend yield of 0%, (2) expected volatility of 116.02% to 143.14%, (3) weighted average risk-free interest rate of 0.18% to 0.85% (4) expected life of 0.08 to 1.00 years, and (5) the quoted market price of the Company's common stock at each valuation date.

In accordance ASC 840-15-25, the Company has implemented a sequencing policy with respect to all outstanding convertible instruments. The Company evaluates its contracts based upon earliest issuance date.

Liabilities measured at fair value on a recurring basis are summarized as follows:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Derivative Liabilities	-	-	76,295	76,295
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76,295</u>	<u>\$ 76,295</u>

#### **NOTE 4 – PROPERTY AND EQUIPMENT**

Depreciation is computed using the straight-line method and is recognized over the estimated useful lives of the property and equipment, which range from three to ten years. Depreciation expense was \$373 and \$-0- for the years ended December 31, 2016 and 2015, respectively and is included in the administrative and marketing expense on the statement of operations. No impairment was recognized during the twelve months ended December 31, 2016. Property and equipment at December 31, 2016 and 2015 consisted of the following:

<b>Property and Equipment December 31,</b>	<b>2016</b>	<b>2015</b>
Machinery and equipment	\$ 543,249	\$ 532,053
Office equipment	40,455	40,455
Furniture and fixtures	13,470	13,470
Software	416	416
Total Property and Equipment	597,590	586,394
Less: Accumulated depreciation	(586,767)	(586,394)
Net Property and Equipment	<u>\$ 10,823</u>	<u>\$ -0-</u>

## NOTE 5 – GOODWILL AND INTANGIBLE ASSETS

*Intangible Assets* – The components of intangible assets at December 31, 2016 and 2015 were as follows:

December 31, 2016	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents	\$ 173,313	\$ 150,427	\$ 22,886
Proprietary Technology	799,082	725,610	73,472
Total Amortizing Asset	\$ 972,395	\$ 876,037	\$ 96,358
December 31, 2015	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents	\$ 173,313	\$ 134,153	\$ 39,160
Proprietary Technology	799,082	658,950	140,132
Total Amortizing Asset	\$ 972,395	\$ 793,103	\$ 179,292

Patent amortization was \$16,274 and \$19,789 for the year ended December 31, 2016 and 2015, respectively. Amortization related to proprietary technology was \$66,660 and \$81,600 for the years ended December 31, 2016 and 2015. Patent and proprietary technology amortization is charged to operations.

Estimated aggregate amortization expense for each of the next three years is \$45,798 in 2017, \$30,290 in 2018, and \$20,270 in 2019, at which time the patents will be fully amortized.

**Goodwill** – Goodwill represents the excess of the Company’s reorganization value over the fair value of net assets of the Company upon emergence from bankruptcy. Goodwill is not amortized, but is tested for impairment annually, or when a triggering event occurs. As described in ASU 2010-28, ASU 2011-08 and ASC 350-20-35, the Company has adopted the two step goodwill impairment analysis that includes quantitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two – step goodwill impairment test. A fair-value-based test is applied at the overall Company level. The test compares the estimated fair value of the Company at the date of the analysis to the carrying value of its net assets. The analysis also requires various judgments and estimates, including general and macroeconomic conditions, industry and the Company’s targeted market conditions, as well as relevant entity-specific events; such as a change in the market for the Company’s products and services. After considering the qualitative factors that would indicate a need for interim impairment of goodwill and applying the two-step process described in ASC 350-20-35, paragraphs 4-13, management has determined that the value of Company’s assets is not, “more likely than not” less than the carrying value of the Company including goodwill, and that no impairment charge needs be recognized during the reporting periods.

Upon emerging from bankruptcy protection in 2004, the Company engaged Houlihan Valuation Advisors, an independent valuation firm, to assess the fair value of the Company’s goodwill, patents and other proprietary technology at the date of emergence. The appraisal was completed during 2005. The Company continues to evaluate the fair value of its intangible assets using similar methods as those used by the valuation firm.

## NOTE 6 – INCOME TAXES

There was no provision for, or benefit from, income tax during the years ended December 31, 2016 and 2015 respectively. The components of the net deferred tax asset as of December 31, 2016 and 2015, including temporary differences and operating loss carry forwards that arose prior to reorganization from bankruptcy, are as follows:

December 31,	2016	2015
Operating loss carry forwards	\$ 8,062,514	\$ 8,131,464
Origination and amortization of interest on convertible notes	840,044	526,453

Allowance for doubtful accounts	61,814	-
Change in derivative liabilities	12,037	-
Options issued for services	646,764	637,872
Total Deferred Tax Assets	\$ 9,623,173	\$ 9,295,789
Valuation allowance	(9,623,173)	(9,295,789)
<b>Net Deferred Tax Asset</b>	\$ --	\$ --

Federal and state net operating loss carry forwards at December 31, 2016 and 2015 were \$22,742,451 and \$21,796,597, respectively. A portion of the net operating loss carry forwards includes losses incurred prior to February 24, 2004, when a change of greater than 50% in ownership of the Company occurred. As a result of the change of ownership, only a portion of the net operating loss carry forwards incurred prior to the change becomes available each year. The net operating loss carry forwards begin to expire in 2020.

The following is a reconciliation of the amount of benefit that would result from applying the federal statutory rate to pretax loss with the provision for income taxes for the years ended December 31, 2016 and 2015, respectively:

<b>For the Years Ended December 31,</b>	<b>2016</b>	<b>2015</b>
Tax at statutory rate (34%)	\$ (711,683)	\$ (877,090)
Options issued for services	8,892	84,543
Origination and amortization of interest on convertible notes	313,591	500,936
Allowance for doubtful accounts	61,814	-
Change in derivative liabilities	12,037	-
Change in valuation allowance	(315,348)	(292,411)
<b>Provision for Income Taxes</b>	\$ --	\$ --

Under FASB ASC 740-10-05-6, tax benefits are recognized only for the tax positions that are more likely than not be sustained upon examination by tax authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely to be realized upon ultimate settlement. Unrecognized tax benefits are tax benefits claimed in the company's tax return that do not meet these recognition and measurement standards.

The Company's policy is to recognize potential interest and penalties accrued related to unrecognized tax benefits with the income tax expense. For the years ended December 31, 2016, and 2015, the Company did not recognize any interest or penalties in its Statement of Operations, nor did it have any interest or penalties accrued in its Balance sheet at December 31, 2016 and 2015 relating to unrecognized benefits.

The tax years 2016, 2015, 2014 and 2013 remain open to examination for federal income tax purposes and by other major taxing jurisdictions to which the Company is subject.

#### **NOTE 7 – CONVERTIBLE NOTES PAYABLE**

##### Convertible Notes Payable – Third Parties

On August 8, 2011, the Company entered into a convertible note payable with a former Director for \$40,000. This note is due on December 31, 2015, bears an annual interest rate of 10% annual interest (15% default interest) and is secured by business equipment.

During 2015, the Company secured additional financing to cover its ongoing operations in the amount of \$590,000 by issuing various convertible notes bearing 10% annual interest (15% default interest), secured by business assets and carrying exercise prices ranging between \$0.025 and \$0.07 per share. Additionally during 2015, the Company issued \$51,000 for a non-convertible note payable bearing 10% annual interest (15% default interest) and secured by the \$51,157 note receivable held by the Company (see Note 2). During 2015, all of these notes (both convertible and non-convertible issued in 2014 and 2015) and accrued interest were either converted into common stock or extinguished and consolidated into two remaining convertible notes payable to two investors in principal amounts of \$684,660 and \$123,797 (with respective maturity dates of December 31,

2016 and November 30, 2016). Both notes are convertible at \$0.05 per share, bear 10% annual interest rates (15% default interest) and are secured by business assets.

On January 20, 2016, the Company entered into a promissory convertible note with Capital Communications LLC for up to \$300,000 which was funded in tranches of \$50,000 for each of the six months thereafter. Accordingly, on January 26, 2016, February 26, 2016, March 31, 2016, April 29, 2016, June 10, 2016 and July 7, 2016, the Company received proceeds for an aggregate total of \$300,000 from Capital Communications LLC. The note has an annual interest rate of 10% and is secured by the Company's business equipment. The principal amount of the note, and all accrued interest is due and payable on or before December 31, 2016 and each note has a conversion feature for restricted common shares at \$0.06 per share.

The fair value of the common stock at the date of the January 26, 2016 advance was \$0.08, establishing an intrinsic value of \$0.02, which created a Beneficial Conversion Feature ("BCF") of \$16,500. The BCF was recorded as a debt discount and is being amortized over the life of the note. The debt discount remaining as of December 31, 2016 was \$0.

The fair value of the common stock at the date of the February 26, 2016 advance was \$0.10, establishing an intrinsic value of \$0.04, which created a BCF of \$29,167. The BCF was recorded as a debt discount and is being amortized over the life of the note. The debt discount remaining as of December 31, 2016 was \$0.

The fair value of the common stock at the date of the March 31, 2016 advance was \$0.07, creating an intrinsic value of \$0.01, which created a BCF of \$5,333. The BCF was recorded as a debt discount and is being amortized over the life of the note. The debt discount remaining as of December 31, 2016 was \$0.

Since the fair value of the common stock at the date of the April 29, 2016 advance was \$0.05, no BCF was recorded.

The fair value of the common stock at the date of the June 10, 2016 advance was \$0.07, establishing an intrinsic value of \$0.01, which created a BCF of \$5,750. The BCF was recorded as a debt discount and is being amortized over the life of the note. The debt discount remaining as of December 31, 2016 was \$0.

The fair value of the common stock at the date of the July 7, 2016 advance was \$0.09, creating an intrinsic value of \$0.03, which created a BCF of \$21,333. The BCF was recorded as a debt discount and is being amortized over the life of the note. The debt discount remaining as of December 31, 2016 was \$0.

The Company entered into a new convertible promissory note for up to \$300,000 from a third party on July 1, 2016. The note has an annual interest rate of 10% and is secured by the Company's equipment. The note has a conversion feature for restricted common shares at \$0.07 per share and a maturity date of December 31, 2016. The Company drew \$40,000 against that note on August 11, 2016, \$40,000 on September 23, 2016, \$40,000 on November 1, 2016, and \$40,000 on December 1, 2016.

The fair value of the common stock at the date of the August 11, 2016 advance was \$0.16, establishing an intrinsic value of \$0.09, which created a BCF of \$40,000. The BCF was recorded as a debt discount and is being amortized over the life of the note. The debt discount remaining as of December 31, 2016 was \$0.

The fair value of the common stock at the date of the September 23, 2016 advance was \$0.08, establishing an intrinsic value of \$0.01, which created a BCF of \$4,971. The BCF was recorded as a debt discount and is being amortized over the life of the note. The debt discount remaining as of December 31, 2016 was \$0.

The fair value of the common stock at the date of the November 1, 2016 advance was \$0.08, establishing an intrinsic value of \$0.01, which created a BCF of \$5,657. The BCF was recorded as a debt discount and is being amortized over the life of the note. The debt discount remaining as of December 31, 2016 was \$0.

The fair value of the common stock at the date of the December 1, 2016 advance was \$0.08, establishing an intrinsic value of \$0.01, which created a BCF of \$7,429. The BCF was recorded as a debt discount and is being amortized over the life of the note. The debt discount remaining as of December 31, 2016 was \$0.

At December 31, 2016, the principal balance of convertible notes payable was \$1,184,660 the unamortized discount was \$0 and interest accrued and unpaid was \$118,055. The Company recorded interest expense of \$1,006,543 during the year ended December 31, 2016 as it amortized the discount charges generated by the issuance of convertible notes payable.

On November 21, 2016, the Board of Directors approved the conversion of \$123,797 in convertible notes held by Liberty Partners, LLC, plus \$12,821 in interest accrued and unpaid, to 2,700,000 shares of restricted common stock at an average



conversion price of approximately \$0.05 per share. On November 22, 2016, the Board of Directors approved the conversion of \$160,000 in convertible notes held by Compass Equity Partners, LLC, plus \$38,400 in interest accrued and unpaid, to 3,950,000 shares of restricted common stock at an average conversion price of approximately \$0.05 per share.

#### Convertible Note Payable Related Parties

On July 1, 2016 and September 22, 2016, the Company issued two promissory notes for \$10,000 each to an officer of the Company. The notes bear interest at the rate of 10%, have a conversion feature for restricted common shares at \$0.07 per share and a maturity date of December 31, 2016.

Since the fair value of the common stock at the date of the July 1, 2016 advance was \$0.07, no BCF was recorded.

The fair value of the common stock at the date of the September 22, 2016 advance from an officer was \$0.08, establishing an intrinsic value of \$0.01, which created a BCF of \$1,286. The BCF was recorded as a debt discount and is being amortized over the life of the note. The debt discount remaining as of December 31, 2016 was \$0.

At December 31, 2016 the Convertible Notes Payable Related Parties principal was \$20,000, the unamortized discount was \$0 and interest accrued and unpaid was \$621. The Company recorded interest expense of \$1,907 during the year ended December 31, 2016 as it amortized the discount charges generated by the issuance of convertible notes payable.

Due to the Company's lack of authorized shares necessary to settle these convertible instruments, in accordance with ASC 815-40-25, the Company determined that the conversion features related to these notes are derivative instruments since we do not have control to increase the number of authorized shares to settle these convertible instruments. The accounting treatment of derivative financial instruments requires that the Company record fair value of the derivatives as of the inception date of the Notes and to fair value as of each subsequent reporting date. At the inception of the Note, the Company determined the fair value of the derivatives were \$40,892. The fair value of the embedded derivatives were determined using the Binomial Option Pricing Model based on the following assumptions: (1) dividend yield of 0%, (2) expected volatility of 116.02% to 143.14%, (3) weighted average risk-free interest rate of 0.18% to 0.85% (4) expected life of 0.08 to 1.00 years, and (5) the quoted market price of the Company's common stock at each valuation date.

The determined fair value of the aggregate derivatives of \$40,892 was charged as a debt discount up to the net proceeds of the notes. For the year ended December 31, 2016, the Company amortized \$40,892 of debt discount to current period operations as interest expense.

#### **NOTE 8 – CAPITAL STOCK**

Preferred Stock – There are 1,000,000 shares of preferred stock with a par value of \$0.001 per share authorized. At December 31, 2016 and 2015, there were no shares of preferred stock issued or outstanding.

Common Stock – There are 100,000,000 shares of common stock with a par value of \$0.001 per share authorized. During the year ended December 31, 2016, there were 6,736,350 shares of common stock issued. During the year ended December 31, 2015, there were 18,250,000 shares of common stock issued.

On January 12, 2015, the Board of Directors approved the conversion of \$165,000 in convertible notes held by Capital Communications LLC, plus \$33,023 in interest accrued and unpaid, to 2,800,000 shares of restricted common stock at an average conversion price of \$0.07 per share

On January 20, 2015, the Board of Directors approved the conversion of \$135,000 in convertible notes held by Empire Fund Managers, plus \$23,760 in interest accrued and unpaid, to 2,650,000 shares of restricted common stock at an average conversion price of \$0.06 per share.

In October 2015, the Board of Directors approved the issuance of 3,400,000 shares of restricted common stock to extinguish \$330,000 in accrued liabilities arising from investor relations services, at an average price of \$0.084 per share.

In November and December 2015, the Board of Directors approved the conversion of \$470,000 in convertible notes to 9,400,000 shares of restricted common stock.

In June 2016, the Board of Directors approved the issuance of 86,350 shares of restricted common stock to an employee to fully satisfy the terms of a stock subscription agreement.

In November 2016, the Board of Directors approved the conversion of \$123,797 in convertible notes held by Liberty Partners, LLC, plus \$12,821 in interest accrued and unpaid, to 2,700,000 shares of restricted common stock at an average price of approximately \$0.05 per share.

In November 2016, the Board of Directors approved the conversion of \$160,000 in convertible notes held by Compass Equity Partners, LLC, plus \$38,400 in interest accrued and unpaid, to 3,950,000 shares of restricted common stock at an average price of approximately \$0.05 per share.

## **NOTE 9 – STOCK OPTION PLANS**

On August 25, 2005, the Board of Directors of the Company approved and adopted the 2005 Stock Incentive Plan (the Plan). The Plan became effective upon its adoption by the Board and continued in effect for ten years, terminating on August 25, 2015. This plan was approved by the stockholders of the Company at their annual meeting of shareholders on November 22, 2005. Under the Plan, the exercise price for all options issued will not be less than the average quoted closing market price of the Company's trading common stock for the thirty day period immediately preceding the grant date plus a premium of ten percent. The maximum aggregate number of shares that may be awarded under the plan is 2,500,000 shares. The Company continues to utilize the Black-Scholes option-pricing model for calculating the fair value of the options granted as defined by ASC Topic 718, which is an acceptable valuation approach under ASC 718. This model requires the input of subjective assumptions, including the expected price volatility of the underlying stock.

On August 24, 2015, the Board of Directors approved the issuance of options to purchase 2,185,000 shares of the Company's common stock. Of the total issued, 1,960,000 options were issued to replace options held by directors and employees which were to expire and 225,000 options were issued to new employees. Of the options issued, 640,000 have an option price of \$0.14 per share, 900,000 have an option price of \$0.15 per share, 396,667 have an option price of \$0.20 per share, and 33,333 have an option price of \$0.25 per share. Options issued as replacement shall have immediate vesting terms. Options which are not replacements shall vest over a two year four month period in equal installments on the last day of 2015, 2016 and 2017, respectively.

Projected data related to the expected volatility and expected life of stock options is based upon historical and other information, and notably, the Company's common stock has limited trading history. Changes in these subjective assumptions can materially affect the fair value of the estimate, and therefore, the existing valuation models do not provide a precise measure of the fair value of the Company's employee stock options.

Between August 25, 2005 and December 31, 2016, the Company granted options to employees to purchase an aggregate 3,096,000 shares of common stock at exercise prices ranging from \$0.15 to \$2.07 per share. The options vest over three years and expire 10 years from the date of grant. The Company used the following assumptions in estimating the fair value of the options granted:

- Market value at the time of issuance – Range of \$0.14 to 2.07
- Expected term – Range of 3.7 years to 10.0 years
- Risk-free interest rate – Range of 1.60% to 4.93%
- Dividend yield – 0%
- Expected volatility – 200% to 424%
- Weighted-average fair value - \$0.16 to \$2.07

As of the years ended December 31, 2005 through 2016, the Company recognized a total of \$2,423,825 of stock-based compensation expense, which includes charges of \$26,451 in 2016 and \$248,656 in 2015, leaving \$19,944 and \$46,009 in unrecognized expense as of December 31, 2016 and 2015, respectively. There were 2,185,000 and 2,185,000 employee stock options outstanding at December 31, 2016 and 2015, respectively.

A summary of all employee options outstanding and exercisable under the plan as of December 31, 2016, and changes during the year then ended is set forth below:

<b>Options</b>	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (Years)</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at the beginning of period	2,185,000	\$ 0.16	9.66	\$ --
Granted	--	--	--	--
Expired	--	--	--	--
Forfeited	--	--	--	--
Outstanding at the end of Period	2,185,000	\$ 0.16	8.66	\$ --
Exercisable at the end of Period	1,970,000	\$ 0.16	8.65	\$ --

A summary of all employee options outstanding and exercisable under the plan as of December 31, 2015, and changes during the year then ended is set forth below:

<b>Options</b>	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (Years)</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at the beginning of period	2,024,000	\$ 1.10	1.65	\$ --
Granted	2,185,000	0.16	9.66	--
Expired	--	--	--	--
Forfeited	(2,024,000)	1.10	--	--
Outstanding at the end of Period	2,185,000	\$ 0.16	9.66	\$ --
Exercisable at the end of Period	1,755,000	\$ 0.15	9.66	\$ --

#### **NOTE 10 – COMMITMENTS AND CONTINGENCIES**

The Company currently occupies a manufacturing facility in Draper, Utah. The lease on the facility expired on December 31, 2014, at which time the Company entered into a three year extension which will expire on December 31, 2017. Either party may terminate the lease upon 90 day written notice. Under the terms of the lease the Company paid \$8,950 per month in 2015 (the same rate as in 2014), paid \$9,300 per month in 2016 and will pay \$9,600 per month in 2017.

#### **NOTE 11 – RELATED PARTY TRANSACTIONS**

At December 31, 2016 and 2015, the Company had accounts payable of \$1,420 and \$322 to its Chief Executive Office for reimbursement of various operating expenses paid by him in the course of business.

On July 1, 2016 and September 22, 2016, the Company issued two promissory notes for \$10,000 each to an officer of the Company. The notes bear interest at the rate of 10%, have a conversion feature for restricted common shares at \$0.07 per share and a maturity date of December 31, 2016.

#### **NOTE 12-REVISION OF PRIOR YEAR FINANCIAL STATEMENTS**

The Company identified an error relating to the calculation of the gain on stock debt exchange during the year ended December, 2015. The effect of the error is to increase notes payable and net loss by \$160,000 for the year ended December 31, 2015

In accordance with the guidance provided by the SEC's Staff Accounting Bulletin 99, *Materiality* and Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* the Company has determined that the impact of adjustments relating to the correction of this accounting

error are not material to previously issued annual audited consolidated financial statements. Accordingly, these changes are disclosed herein and will be disclosed prospectively.

As a result of the aforementioned correction of accounting errors, the relevant annual financial statements have been revised as follows:

Effects on financials for the Year Ended December 31, 2015:

	December 31, 2015		
	As Previously Reported	Adjustment	As Revised
Consolidated Balance Sheet			
Convertible debentures	45,105	160,000	205,105
Accumulated deficit	(23,969,627)	(160,000)	(24,129,627)
Total stockholders' deficit	4,681,669	(160,000)	4,521,669
	For the Year Ended December 31, 2015		
	As Previously Reported	Adjustment	As Revised
Consolidated Statement of Operations			
Gain on stock debt exchange	316,743	(160,000)	156,743
Net other income (expense)	(1,437,140)	(160,000)	(1,597,140)
Net loss for the period	(2,582,030)	(160,000)	(2,742,030)
Loss per common share	\$ (0.04)	\$(0.01)	\$(0.05)

#### **NOTE 13 - SUBSEQUENT EVENTS**

Subsequent to December 31, 2016, the Company has drawn \$120,000 against the convertible note with Capital Communications, LLC dated July 1, 2016.

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

We have not had a change in or disagreement with accountants on accounting financial disclosure during the past two fiscal years.

### ITEM 9A. CONTROLS AND PROCEDURES

As of the end of the period covered by this Annual Report we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Our controls and procedures are designed to allow information required to be disclosed in our reports to be recorded, processed, summarized and reported within the specified periods, and accumulated and communicated to management to allow for timely decisions regarding required disclosure of material information. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. Based upon the evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective at that reasonable assurance level as of the end of the period December 31, 2016.

**Management's Annual Report on Internal Control over Financial Reporting.** Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes of accounting principles generally accepted in the United States. The policies and procedures include:

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our internal control over financial reporting as of the end of the period December 31, 2016. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the fiscal year December 31, 2016, our internal control over financial reporting was not effective at that reasonable assurance level.

The material weaknesses relate to the limited number of persons responsible for the recording and reporting of financial information, the lack of separation of financial reporting duties, and the limited size of our management team in general. We are in the process of evaluating methods of improving our internal control over financial reporting, including the possible addition of financial reporting staff and the increased separation of financial reporting responsibility, and intend to implement such steps as are necessary and possible to correct these material weaknesses

**Changes in Internal Control over Financial Reporting.** There have been no changes in internal control over financial reporting during the fourth quarter of 2016 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

### ITEM 9B. OTHER INFORMATION

Mr. Ruland J. Gill resigned as a director of the Company in November 2016 after serving the Company as a director for over 10 years. Mr. Gill decided to resign his directorship with the Company to pursue other interests. He has not expressed any disagreement with the Company on any matter relating to the Company's operations, policies or practices. The board of directors has elected not to fill the vacancy on the board of directors until a later date.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

#### DIRECTORS AND EXECUTIVE OFFICERS

Our directors and executive officers are listed below, with their respective ages, positions and biographical information. Our bylaws provide that the directors shall be divided into three classes. A class of directors shall be elected for a one-year term, a class of directors for a two-year term and a class of directors for a three-year term. At each succeeding annual meeting of stockholders, successors to the class of directors whose term expires at that meeting shall be elected for a three-year term. We currently have a vacancy in the one-year term. Our executive officers are chosen by our board of directors and serve at its discretion. There are no family relationships between or among any of our directors and executive officers.

<u>Name</u>	<u>Age</u>	<u>Position Held</u>	<u>Director Term of Office</u>
Clark M. Mower	70	President, CEO and Director	From November 2005 until next annual meeting
John A. Sindt	72	Chairman of the Board	From November 2005 until next annual meeting

Clark M. Mower – Mr. Mower was appointed President and CEO in January 2005. He was appointed as Director, President and CEO of Sensitron in February 2005. In November 2005 he was elected to serve a one year term as director (or until the next annual meeting). He formerly served as Senior Vice President - Mergers and Acquisitions - Merchant Energy Group for El Paso Energy Corporation (NYSE: EP). From August 2002 through 2004 he was the managing member of Polaris Energy, LLC, a non-affiliated consulting company to energy related mergers and acquisition. From August 2002 to July 2004 he was a management committee member for Saguaro Power Company, a non-affiliated company operating a 100 megawatts power plant in Henderson, Nevada. Prior to that he served as President and Chief Executive Officer of Bonneville Pacific Corporation (a public company) for eight years until El Paso Corporation acquired Bonneville Pacific Corporation in October 1999.

John A. Sindt – Mr. Sindt has served as a director of the company since 1999 and served as President and Chief Executive and Financial Officer from 2001 to 2004. He served as Secretary/Treasurer from January 2005 through July 2005. In November 2005 he was elected to serve a two year term as director (or until the next annual meeting). Mr. Sindt also served as the Chairman of the Board of Sensitron, one of our former subsidiaries. He has been employed since 1965 as a Salt Lake County, Utah Constable. He has also served as President, Corporate Secretary and Director for the National Constables Association.

During the past ten years none of our executive officers have been involved in any legal proceedings that are material to an evaluation of their ability or integrity; namely: (1) filed a petition under federal bankruptcy laws or any state insolvency laws, nor had a receiver, fiscal agent or similar officer appointed by a court for the business or property of such person, or any partnership in which he was a general partner at or within two years before the time of such filing, or any corporation or business association of which he was an executive officer at or within two years before the time of such filing; (2) been convicted in a criminal proceeding or named subject to a pending criminal proceeding (excluding traffic violations and other minor offenses); (3) been the subject of any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining him or her from or otherwise limiting his/her involvement in any type of business, securities or banking activities; or (4) been found by a court of competent jurisdiction in a civil action, by the SEC or the Commodity Futures Trading Commission to have violated any federal or state securities law, and the judgment in such civil action or finding by the SEC has not been subsequently reversed, suspended, or vacated.

#### AUDIT COMMITTEE

Our audit committee consists of our Board of Directors. Our audit committee has a charter and management believes Mr. Mower qualifies as an audit committee financial expert because of his extensive experience in finance. Based upon the definition of independent director under NASDAQ Stock Market Rule 5605(a) (2), Mr. Mower is not independent of management.

## OTHER COMMITTEES

We do not have a standing nominating committee for directors or a compensation committee. Our entire board of directors, including Messrs. Mower and Sindt, act as our nominating and compensation committee.

## CODE OF ETHICS

We adopted a Business Ethics and Code of Conduct in November 2000. Upon written request we will provide a copy of the Business Ethics and Code of Conduct to any person without charge. Address your request to:

Shareholder Communications  
Flexpoint Sensor Systems, Inc.  
106 West Business Park Drive  
Draper, Utah 84020

## COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Section 16(a) of the Securities Exchange Act of 1934 requires our directors, executive officers and persons who own more than five percent of a registered class of our equity securities to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of our common stock. Officers, directors and ten-percent or more beneficial owners of our common stock are required by SEC regulations to furnish Flexpoint Sensor with copies of all Section 16(a) reports they file and provide written representation that no Form 5 is required. Based upon a review of these forms furnished to us during the fiscal year ended December 31, 2016, we believe Clark Mower filed late Forms 4 related to 3 transactions.

## ITEM 11. EXECUTIVE COMPENSATION

### COMPENSATION DISCUSSION AND ANALYSIS

Compensation Objectives -- Our compensation philosophy is to align executive compensation with the interests of stockholders, attract, retain and motivate a highly competent team of executives, and link pay to performance.

Base Salary -- Base salaries for our executives depend on the scope of their responsibilities and their performance. Base salary is designed to compensate the executives for services rendered during the year. These salaries are compared to amounts paid to the executive's peers outside our Company. As we have not yet established a Compensation Committee, salary levels are typically reviewed annually by the Board of Directors performance review process, with increases based on the assessment of the performance of the executive.

Long-term Compensation -- The Board of Directors determined that long-term incentive compensation would be in the form of stock options granted. We have a stock option plan and implemented which has been approved by the shareholders to provide long-term compensation to directors and employees of the company.

Perquisites - The only material perquisite provided to our executive officers is reimbursement for use of a personal automobile while engaged on company business.

Retirement Benefits - We have no retirement benefits currently in place. It is the intent of the company to add such benefits at a future date.

Employee agreements - We have not entered into employment contracts with our executive officers and their compensation is determined at the discretion of our board of directors.

Termination and Change of Control Payments -- The Company does not currently have employment agreements with its executive officers and there are no agreements providing for severance should a change of control take place

### SUMMARY COMPENSATION TABLE

The following table shows the compensation paid to our Chief Executive Officer, Principal Financial Officer, and our most highly compensated executive officer for the last two fiscal years:

Name and Principal Position	Year	Salary (\$)	Option Awards (1) (\$)	All Other Compensation (\$)	Total (\$)
Clark M. Mower, President, CEO, PFO and Director	2016	\$ 72,000	\$ 0	\$ 0	\$ 72,000
	2015	\$ 70,000	\$128,354	\$ 0	\$ 200,687

(1) Represents value of options granted computed in accordance with FASB ASC Topic 718.

On August 24, 2015 our board of directors authorized the grant of options to purchase 1,100,000 shares of common stock to our President and CEO, Clark M. Mower. Of the options, 500,000 may be exercised at \$0.15 per share and the remaining 600,000 may be exercised at \$0.20 per share. These options to purchase shares were granted in consideration for Mr. Mower accepting a voluntary salary reduction over the first six months of 2012 and, because the Company did not meet its projected revenues during the year ending December 31, 2014, Mr. Mower continued to voluntarily take a reduced salary through the end of 2016. The options were granted under the 2005 Stock Incentive Plan.

#### OUTSTANDING EQUITY AWARDS

The following table shows outstanding equity awards granted to our named executive officers as of December 31, 2016.

Name	Option Awards				
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date
(a)	(b)	(c)	(d)	(e)	(f)
Clark M. Mower, CEO, President and Director	500,000 400,000	0 200,000	0 0	\$0.15 \$0.20	8/25/25 8/25/25

#### DIRECTOR COMPENSATION

We do not have any standard arrangement for compensation of our directors for any services provided as a director, including services for committee participation or for special assignments.

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

#### SECURITIES UNDER EQUITY COMPENSATION PLANS

The following table lists the securities authorized for issuance under any equity compensation plans approved by our shareholders and any equity compensation plans not approved by our shareholders as of December 31, 2016. This chart also includes individual compensation arrangements described below.



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**EQUITY COMPENSATION PLAN INFORMATION**

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Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	2,185,000	\$ 0.16	95,000
Equity compensation plans not approved by security holders	0	\$ 0.00	0
<b>Total</b>	<b>2,185,000</b>	<b>\$ 0.16</b>	<b>95,000</b>

2005 Stock Incentive Plan

On August 25, 2005, our Board adopted the Flexpoint Sensor Systems, Inc. 2005 Stock Incentive Plan (the “Plan”). The purposes of the Plan was to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to employees, directors and consultants, and to promote the success of our business.

The Plan became effective upon its adoption by the Board and continued in effect for a term of ten (10) years. The Plan expired August 25, 2015. The maximum aggregate number of shares of common stock that could be sold under the Plan was 2,500,000 shares. The term of each option and its exercise price was stated in an option agreement; provided that the term does not exceed ten (10) years from the date of grant. The plan provided that a grant of a stock option to an employee shall have an exercise price of no less than 110% of the fair market value per share on the date of grant. As a condition of the grant, vesting or exercise of an option granted under the Plan, the participant shall be required to satisfy any applicable federal, state, local or foreign withholding tax obligations that may arise in connection with the grant, vesting or exercise of the option or the issuance of shares.

Pursuant to the Plan, on August 24, 2015, the Board approved the surrender and cancellation of 1,540,000 options granted to five officers and employees and in exchange granted options to purchase 1,960,000 to those individuals. In addition, the Board granted options to purchase 225,000 shares to two employees.

**BENEFICIAL OWNERSHIP**

The following table lists the beneficial ownership of our outstanding common stock by our management and each person or group known to us to own beneficially more than 5% of our voting common stock. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Based on these rules, two or more persons may be deemed to be the beneficial owners of the same securities. Except as indicated by footnote, the persons named in the table below have sole voting power and investment power with respect to the shares of common stock shown as beneficially owned by them. The percentage of beneficial ownership is based on 78,363,464 shares of common stock outstanding as of April 14, 2017, plus an aggregate of 1,100,000 shares which the following persons may acquire within 60 days by the exercise of rights, warrants and/or options.

CERTAIN BENEFICIAL OWNERS

<u>Name and address of beneficial owner</u>	<u>Amount and nature of beneficial ownership</u>	<u>Percent of class</u>
First Equity Holdings Corp. 2157 S. Lincoln Street Salt Lake City, Utah 84106	5,985,858 (1)	7.6

(1) Includes 743,000 shares held by an officer of First Equity Holdings Corp.

## MANAGEMENT

<u>Name of beneficial owner</u>	<u>Amount and nature of beneficial ownership</u>	<u>Percent of class</u>
Clark M. Mower	1,789,100 (1)	2.7
John A. Sindt	1,430,838 (2)	1.8
<hr/>		
Directors and officers as a group	3,219,938	4.1

(1) Represents 889,100 shares and vested options to purchase 900,000 shares.

(2) Represents 1,230,838 shares held by Mr. Sindt, and vested options to purchase 200,000 shares.

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

#### **TRANSACTIONS WITH RELATED PARTIES**

*The following information summarizes transactions we have either engaged in since the beginning of the last two completed fiscal years, or propose to engage in, involving our executive officers, directors, more than 5% stockholders, or immediate family members of these persons. These transactions were negotiated between related parties without "arm's length" bargaining and, as a result, the terms of these transactions may be different than transactions negotiated between unrelated persons.*

On July 1 and September 21, 2016, the Company issued two convertible notes payable to President and CEO, Clark M. Mower, in the amount of \$10,000 each. The notes bear interest at the rate of 10% per year. Both notes are convertible into shares of restricted common stock at \$0.07 per share.

On August 24, 2015 our Board authorized the grant of options to purchase 1,100,000 shares of common stock to our President and CEO, Clark M. Mower. Mr. Mower surrendered options to buy 900,000 shares in exchange for options to buy 1,100,000 shares granted under the 2005 Stock Incentive Plan. Of these options, 500,000 may be exercised at \$0.15 per share and the remaining 600,000 may be exercised at \$0.20 per share and are valued at \$121,410 and \$26,980, respectively. These options to buy were granted in consideration for Mr. Mower accepting a voluntary salary reduction over the first six months of 2012 and, because the Company did not meet its projected revenues during the year ending December 31, 2014. Mr. Mower continued to voluntarily take a reduced salary through the end of 2015.

On August 24, 2015, John A. Sindt, the Chairman of the Board, surrendered options to buy 180,000 common shares and in exchange was granted options to buy 200,000 common shares under the 2005 Stock Incentive Plan. The options vested upon grant and are exercisable at \$0.25 per share and are valued at \$26,980.

#### **DIRECTOR INDEPENDENCE**

An independent director is defined under NASDAQ Stock Market Rule 5605(a) (2). This rule defines persons as "independent" who are neither officers nor employees of the company and have no relationships that, in the opinion of the board of directors, would interfere with the exercise of independent judgment in carrying out their responsibilities as directors. We do not currently have a director who qualifies as independent.

### **ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

#### **ACCOUNTANT FEES**

The following table presents the aggregate fees billed for each of the last two fiscal years by our independent registered public accounting firm, Sadler, Gibb & Associates, LLC, Certified Public Accountants, in connection with the audit of our financial statements and other professional services rendered by those accounting firm.

	<u>2016</u>	<u>2015</u>
Audit fees	\$ 22,000	\$ 21,000
Audit-related fees	0	0
Tax fees	\$ 1,700	\$ 1,700
All other fees	0	0

Audit fees represent the professional services rendered for the audit of our annual financial statements and the review of our financial statements included in quarterly reports, along with services normally provided by the accounting firm in connection with statutory and regulatory filings or engagements. Audit-related fees represent professional services rendered for assurance and related services by the accounting firm that are reasonably related to the performance of the audit or review of our financial statements that are not reported under audit fees.

Tax fees represent professional services rendered by the accounting firm for tax compliance, tax advice, and tax planning. All other fees represent fees billed for products and services provided by the accounting firm, other than the services reported for the other categories.

#### PRE-APPROVAL POLICIES

Our audit committee makes recommendations to our board of directors regarding the engagement of an auditor. Our board of directors approves the engagement of the auditor before the firm renders audit and non-audit services. Our audit committee does not rely on pre-approval policies and procedures.

## **PART IV**

### **ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

#### ***(a)(1) Financial Statements***

The audited financial statements of Flexpoint Sensor Systems, Inc are included in this report under Item 8 on pages 19 to 36.

#### ***(a)(2) Financial Statement Schedules***

All financial statement schedules are included in the footnotes to the financial statements or are inapplicable or not required.

#### ***(a)(3) Exhibits***

The following documents have been filed as part of this report

#### **No. Description**

- 3.1 Certificate of Incorporation of Flexpoint Sensor, as amended (Incorporated by reference to exhibit 3.1 for Form 10-QSB, filed August 4, 2006)
- 3.2 Bylaws of Flexpoint Sensor, as amended (Incorporated by reference to exhibit 3.4 of Form 10-QSB, filed May 3, 2004)
- 10.1 Lease agreement between Flexpoint Sensor and F.G.B.P., LLC dated July 12, 2004 (Incorporated by reference to exhibit 10.2 of Form 10-QSB filed November 15, 2004 as amended)
- 10.2 Addendum to Lease Agreement between Flexpoint Sensor and Handstands, dated January 1, 2015 (Incorporated by reference to exhibit 10.3 of Form 10-K, filed April 14, 2016) .
- 10.3 Form of Notice of Stock Option Grant, dated August 24, 2015 (Incorporated by reference to exhibit 10.4 of Form 10-K, filed April 14, 2016)
- 20.2 Audit Committee Charter (Incorporated by reference to Schedule 14A, filed October 27, 2005)
- 31.1 Certification of Clark M. Mower pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Clark M. Mower pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification pursuant to 18 U.S.C Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Calculation Linkbase Document
- 101.LAB XBRL Taxonomy Label Linkbase Document
- 101.PRE XBRL Taxonomy Presentation Linkbase Document

## SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### FLEXPOINT SENSOR SYSTEMS, INC.

Date: April 17, 2017

By: /s/ Clark M. Mower  
Clark M. Mower, President

In accordance with Section 13 or 15(d) of the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: April 17, 2017

/s/ Clark M. Mower  
Clark M. Mower  
President  
Chief Executive Officer  
Principal Financial Officer  
Director

Date: April 17, 2017

/s/ John A. Sindt  
John A. Sindt  
Chairman of the Board