DECISION DIAGNOSTICS CORP
Form 10-Q
May 15, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

X .

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended

March 31, 2012

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Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from

_____ to _____

Commission File Number: **000-29315**

DECISION DIAGNOSTICS CORP.

(Exact name of registrant as specified in its charter)

Nevada	**91-2105842**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

91361

2660 Townsgate Road, Suite 300, Westlake Village California
(Address of Principal Executive Offices) (Zip Code)

(805) 446-1973
(Registrant s telephone number, including area code)

Instacare Corp.
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes . No X .

Indicate the number of shares outstanding of each of the issuer s classes of common equity as of the latest practicable date: As of May 11, 2012 there were 10,155,551 shares of common stock, par value $0.001, outstanding.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

DECISION DIAGNOSTICS CORP.

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2012 (Unaudited)	December 31, 2011
Assets		
Current assets:		
Cash	$ 661	$ 14,869
Accounts receivable, net	3,358,978	3,256,504
Prepaid expenses	1,253,938	1,266,576
Total current assets	4,613,577	4,537,949
Other assets:		
Intellectual property	94,535	69,535
Total other assets	94,535	69,535
Total assets	$ 4,708,112	$ 4,607,484
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 234,298	$ 222,659
Accrued interest	141,026	134,712
Line of credit	1,992,168	1,992,168
Notes payable and short term debt (Note 5)	182,678	182,678
Total current liabilities	2,550,170	2,532,217
Contingencies	200,500	205,500
Stockholders' equity:		
Preferred stock, $0.001 par value, 2,247,500 shares authorized, 0 shares issued and outstanding as of March 31, 2012 and December 31, 2011, respectively	-	-
Preferred series "B" stock, $0.001 par value, 2,500 shares authorized, 1,000 and no shares issued and outstanding	1	1

as of March 31, 2012 and December 31, 2011, respectively				
Preferred series "C" stock, $0.001 par value, 1,000,000 shares authorized, 1,250 shares issued and outstanding as of March 31, 2012 and December 31, 2011, respectively		1		1
Preferred series "E" stock, $0.001 par value, 1,750,000 shares authorized, 1,199,000 and 1,095,300 shares issued and outstanding as of March 31, 2012 and December 31, 2011, respectively		1,199		1,095
Common stock, $0.001 par value, 494,950,000 shares authorized, 10,155,526 and 9,307,934 shares issued and outstanding as of March 31, 2012 and December 31, 2011, respectively		10,155		9,308
Subscription receivable		(68,315)		(68,315)
Additional paid-in capital		22,253,813		22,061,746
Accumulated (deficit)		(20,239,412)		(20,134,069)
Total stockholders' equity		1,957,442		1,869,767
Total liabilities and stockholders' equity	$	4,708,112	$	4,607,484

(See accompanying notes to these condensed consolidated financial statements)

DECISION DIAGNOSTICS CORP.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	FOR THE THREE MONTHS ENDED MARCH 31, 2012		2011	
Revenue	$	2,506,380	$	3,123,041
Cost of sales		2,033,738		2,819,717
Gross profit		472,642		303,324
Expenses:				
General and administrative		321,929		277,178
Consulting services		107,556		47,294
Compensation expense		11,335		11,400
Professional fees		32,833		40,285
Total Expenses		473,653		376,157
Net (loss) from operations		(1,011)		(72,833)
Other Income (Expense):				
Financing costs		(36)		(198,002)
Interest expense		(86,797)		(111,795)
Settlement gain (loss)		(17,500)		41,849
Total Other Income (Expense)		(104,333)		(267,948)
Net (loss)	$	(105,344)	$	(340,781)
Net income per share basic and diluted	$	(0.011)	$	(0.045)
Weighted average shares outstanding basic and diluted		9,808,246		7,560,704

(See accompanying notes to these condensed consolidated financial statements)

DECISION DIAGNOSTICS CORP.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	FOR THE THREE MONTHS ENDED MARCH 31, 2012	2011
CASH FLOWS FROM (TO) OPERATING ACTIVITIES:		
Net (loss)	$ (105,344)	$ (340,781)
Adjustments to reconcile net loss to net cash used in operating activities:		
Shares issued for services	95,000	32,167
Shares issued for financing	36	98,004
Bad debt expense	251,136	190,654
Amortization of financing fees	-	99,999
(Gain) loss on debt settlement	17,500	(41,849)
Changes in operating assets and liabilities		
Accounts receivable	(353,609)	(1,280,353)
Prepaid and other assets	12,638	1,309,101
Accounts payable and accrued liabilities	11,638	59,872
Accrued interest	6,314	6,944
Contingencies	(5,000)	-
Net cash provided by (used in) operating activities	(69,691)	133,758
CASH FLOWS FROM (TO) INVESTING ACTIVITIES:		
Intellectual property	(25,000)	(2,459)
Net cash (used) in investing activities	(25,000)	(2,459)
CASH FLOWS FROM (TO) FINANCING ACTIVITIES:		
Proceeds (payments) from line of credit, net	80,483	199,526
Proceeds from issuance of common stock	-	41,785
Net cash provided by financing activities	80,483	241,311
Net increase (decrease) in cash	(14,208)	372,610
Cash, beginning of period	14,869	220,390
Cash, end of period	$ 661	$ 593,000

Supplemental cash flow information:				
Cash paid for interest	$	-	$	103,716
Cash paid for income taxes	$	-		-
Supplemental disclosure of non-cash investing and financing activities:				
Shares and options issued for services	$	95,000	$	32,167
Shares issued for financing	$	36	$	98,004
Shares issued for debt settlement	$	17,500	$	41,849
Shares issued for accrued interest	$	80,483	$	-

(See accompanying notes to these condensed consolidated financial statements)

DECISION DIAGNOSTICS CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

NOTE 1 BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Basis of Presentation

The condensed consolidated interim financial statements included herein, presented in accordance with United States generally accepted accounting principles and stated in US dollars, have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these consolidated interim financial statements be read in conjunction with the consolidated financial statements of the Company for the period ended December 31, 2011 and notes thereto included in the Company's Form 10-K. The Company follows the same accounting policies in the preparation of consolidated interim reports.

Results of operations for the interim periods are not indicative of annual results.

Recent Accounting Pronouncements

Management has analyzed all pronouncements issued during the three months ended March 31, 2012 by the FASB or other authoritative accounting standards groups with future effective dates, and have determined that they are not applicable or are not expected to be significant to the financial statements of the Company.

NOTE 2 GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming that we will continue as a going concern. Our ability to continue as a going concern is dependent upon attaining profitable operations based on the development of distributions platforms through which our products that can be sold. We intend to use borrowings and security sales to mitigate the effects of our cash position, however, no assurance can be given that debt or equity financing, if required, will be available. The condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and classification of liabilities that might be necessary should we be unable to continue in existence.

NOTE 3 - LINE OF CREDIT

During the nine months ended March 31, 2012, we authorized the release of an additional 124,700 shares of preferred series E stock valued at $80,483 for accrued interest due to Alpha Credit Resources as of March 1, 2012. In addition, as a condition of authorizing the excess advance, Alpha Credit Resources required collateral in the form of our preferred series B stock, to be issued in their name and held by their legal counsel as escrow agent for this transaction. In the event of default, Centurion maintains the ability to convert the aforementioned shares into common shares at a rate of 100,000 to 1 in order to cure any potential default. The outstanding shares of this issue, if fully converted, would create 100,000,000 shares of new $.001 par value common stock. The fair value of the underlying common shares at the date of issuance totaled $5,900,000. As of March 31, 2012, the balance owed was $1,992,168.

	MARCH 31, 2012	DECEMBER 31, 2011
Line of credit with interest being paid in shares equal to 5% of each advance, and an additional 2% accruing monthly on the unpaid principal balance	$ 1,992,168	$ 1,992,168

We have recorded interest and financing expense of $80,483 and $301,718 for the three months ended March 31, 2012 and March 31, 2011, respectively.

NOTE 4 NOTES PAYABLE

Notes payable consisted of the following as of March 31 and December 31:

			MARCH 31, 2012		DECEMBER 31, 2011
(a)	Convertible promissory note, bearing interest at a 15% per annum, matured on October 31, 2007, currently in default.	$	145,000	$	145,000
(b)	Promissory note, bearing interest at 9% per annum, maturing June 30, 2012.		37,678		37,678
Total notes payable		$	182,678	$	182,678

a)

In 2005, our former CEO determined that it was in the best interests of the company to borrow funds by offering a series of convertible promissory notes to private investors. The former CEO, who had been removed by the Board as CEO at the time of his determination, broke long standing Board approved company policy, did not receive the necessary officer approvals, did not receive Board approval for his actions, and never provided proof of any consideration to the company. On August 14, 2006 the former CEO was terminated, although he contested the termination through a resignation letter received after his termination. The principal sum of these notes was estimated to be $170,000. According to the terms provided to the company, who some six years later has yet to receive an executed document or note, each note holder was due their principal balance and accrued interest at an annual rate of 15% maturing in one year from the date of issuance. Our former CEO also employed the services of a sales agent and paid this agent certain fees in 2005 and 2006. On March 30, 2010 after a dispute arose, we entered into a debt settlement agreement with the one of the self-claimed investors for the payment of his principal balance of $25,000 and accrued interest of $15,938 for a total amount owed of $40,938. Pursuant to the settlement agreement, we issued 300,000 shares of our common stock valued at $34,500 and agreed to pay an additional $15,000 in cash to the investor for a total sum of $49,500. The excess payment of $8,562 was recorded as interest expense. As of March 31, 2012, the principal balance owed to the remaining investors was $145,000 with accrued interest of $141,026.

b)

On June 20, 2007, we entered into a promissory note with Invacare for the principal amount of $160,385, bearing interest at a rate of 9% per annum and maturing on June 10, 2010. On March 4, 2011, we re-negotiated this note whereby the principal balance and accrued interest were reduced by $35,335 and $6,541, respectively. In addition, the maturity was extended an additional twelve months to March 2012. As a result of the amendments to the note, we recognized a gain on the settlement of debt in the amount of $41,849. Pursuant to the amended terms of the note, we are required to make monthly principal and interest payments of $1,900. As of March 31, 2012, the principal balance totaled $35,335 and accrued interest was $2,343.

We have recorded interest in connection with our notes totaling $6,314 and $309,797 for the three months ended March 31, 2012 and March 31, 2011, respectively.

NOTE 5   FAIR VALUE

Our financial instruments consist principally of notes payable and lines of credit. Notes payable and lines of credit are financial liabilities with carrying values that approximate fair value. Management determines the fair value of notes payable and lines of credit based on the effective yields of similar obligations and believe all of the financial instruments   recorded values approximate fair market value because of their nature and respective durations.

We comply with the provisions of ASC 820, *Fair Value Measurements and Disclosures* (ASC 820). ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements required under other accounting pronouncements. ASC 820-10-35, *Fair Value Measurements and Disclosures - Subsequent Measurement* (ASC 820-10-35), clarifies that fair value is an exit price, representing the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820-10-35 also requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best information available. Assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and/or the risks inherent in the inputs to the model. The Company also follows ASC 825 *Interim Disclosures about Fair Value of Financial Instruments* , to expand required disclosures.

ASC 820-10-35 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820-10-35 are described below:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total Fair Value
Liabilities				
Notes payable	$ -	$ 182,678	$ -	$ 182,678
Line of credit	-	1,992,168	-	1,992,168
Total	$ -	$ 2,174,846	$ -	$ 2,174,846

NOTE 5 STOCKHOLDER S EQUITY

We are authorized to issue up to 494,995,000 shares of $0.001 par value common stock and 5,000,000 shares of various classes of $0.001 par value preferred stock. In March of 2011, we amended our preferred stock designations as follows: 1) withdrawal of Series A designation on 750,000 shares of preferred stock, 2) withdrawal of Series C designation on 1,000,000 shares of preferred stock, 3) Designation of Series B on 2,500 shares of preferred stock and Series C on 10,000 shares of preferred stock, and 4) increased the number of preferred shares designated as Series E from 1,000,000 to 1,250,000. All presentation of preferred stock contained herein has been retroactively presented to reflect the 2011 amendments.

Series B convertible preferred stock

We have designated 2,500 shares of our $0.001 preferred stock as Series B . Holders of series B : convertible stock shall not have the right to vote on matters that come before the shareholders. Series B convertible preferred stock may be converted, the number of shares into which one share of Series B Preferred Stock shall be convertible into common stock shares shall be 50. Series B convertible stock shall rank senior to common stock in the event of liquidation. Holders of Series B convertible stock shall not be entitled to a mandatory monthly dividend. Series E convertible stock shall have a redemptions price equal to 101% of the purchase price per share, subject to adjustments resulting from stock splits, recapitalization, or share combination.

Series C convertible preferred stock

We have designated 10,000 shares of our $0.001 preferred stock as 2011 Series C . Each share of 2011 Series C Preferred stock is valued at $10,000. Holders of series C : convertible stock shall not have the right to vote on matters that come before the shareholders. 2011 Series C convertible preferred stock may be converted after 36 months, but not before, the number of shares into which one share of 2011 Series C Preferred Stock shall be convertible on a pro-rata basis into common stock shares, each share of common stock valued at $.50. 2011 Series C convertible stock shall rank junior to all other classes of Preferred stock in the event of liquidation. Holders of 2011 Series C convertible stock shall not be entitled to a mandatory monthly dividend.

Series E convertible preferred stock

We have designated 1,250,000 shares of our $0.001 preferred stock as Series E . Holders of series E : convertible stock shall not have the right to vote on matters that come before the shareholders. Series E convertible preferred stock may be converted, the number of shares into which one share of Series E Preferred Stock shall be convertible into common stock shares shall be 14. Series E convertible stock shall rank senior to common stock in the event of liquidation. Holders of Series E convertible stock shall not be entitled to a mandatory monthly dividend. Series E convertible stock shall have a redemptions price equal to 101% of the purchase price per share, subject to adjustments resulting from stock splits, recapitalization, or share combination.

Preferred E Issuances

During the three-month period ended March 31, 2012, we authorized the release of 124,700 shares of our preferred Series E stock to Alpha Credit Resources for accrued interest totalling $80,483.

During the three-month period ended March 31, 2012, Alpha Credit Resources elected to convert 21,000 shares of their preferred series E into 294,000 shares of common stock.

Common Issuances

On January 16, 2012, we issued 53,354 shares of our common stock to an individual pursuant to a settlement agreement for in the amount of $17,500.

During the three months ended March 31, 2012, we issued 500,000 shares of our common stock to entities as consulting fees earned during the three months ended March 31, 2012. The fair value of the shares totalled $95,000, and has been recorded as a consulting expense.

During the three months ended March 31, 2012 we authorized the issuance of 238 shares of common stock to Alpha Credit Resources as financing fees in connection with our line of credit. The fair value of the shares was $36, and was recorded as financing costs.

NOTE 6 OPTIONS

2004 Stock Option Plan

Effective April 21, 2004, we adopted the 2004 Stock Option Plan, as amended, with a maximum number of 450,893 (post-split) shares that may be issued. As of December 31, 2011, 398,104 (post-split) options have been granted and exercised or expired under this plan. There are 52,789 options which remain available for issuance.

2005 Merger Consolidated Stock Option Plan

On February 5, 2005, we adopted our 2005 Merger Consolidated Stock Option Plan. The maximum number of shares that may be issued pursuant to the plan is 80,357 (post-split) shares. As of March 31, 2012, 77,307 (post-split) shares have been granted under this plan and 3,050 remain available for issuance.

2006 Stock Option Plan

On December 8, 2006 we adopted our 2006 Employee Stock Option Plan, as amended and granted incentive and nonqualified stock options with rights to purchase 1,821,429 (post-split) shares of our $0.001 par value common stock. As of March 31, 2012, 1,023,725 (post-split) options were granted and exercised or expired under this plan and 797,704 remain available for issuance.

The following is a summary of activity of outstanding stock options under all Stock Option Plans:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, December 31, 2011	14,286	$ 0.80
Options granted	-	-
Options cancelled	-	-
Options exercised	-	-
Balance, March 31, 2012	14,286	$ 0.80

NOTE 7 WARRANTS

The following is a summary of activity of outstanding warrants as of March 31, 2012:

	NUMBER OF WARRANTS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, December 31, 2011	17,857	$ 0.49
Warrants granted	-	-
Warrants cancelled	-	-
Warrants exercised	-	-
Balance, March 31, 2012	17,857	$ 0.49

NOTE 8 COMMITMENTS AND CONTINGENCIES

Leases

We currently maintain an executive office at 2660 Townsgate Road, Suite 300, Westlake Village, CA 91361. The space consists of approximately 2,300 square feet. The monthly rental for the space is $4,140 per month on a month-to-month basis.

On June 7, 2005, we entered into an agreement for the right to use offices, warehouses and shipping facilities for the storage and shipping of pharmaceuticals located at 515 Inman Avenue, Colonia, NJ 07067 and 25 Minna Street, Rahway, New Jersey.

Rent expense totalled $26,970 and $35,200 for the three months ended March 31, 2012 and 2011, respectively.

Contingencies

We transact commerce in several medical products market channels. We also transact commerce by licensing our proprietary medical software that functions by moving confidential medical data through our proprietary medical information technology devices and networks. Our new Shasta Genstrip product required initial regulatory approval by the USFDA as well as on-going USFDA approvals during the product life cycle. Further, Shasta Genstrip required medical patient trials and will compete directly with a major platform manufacturer.

Healthcare, especially those segments where the company competes, is a very litigious. Competing companies often use litigation as a marketing tool, bringing litigation as a means to protect market share and limit market exposure. The medical industry is also intertwined. From time to time, we may become involved in claims and litigation that arise out of the normal course of business, such as litigation that emerges from disputes over damaged, missing or contaminated product. We may also become involved in disputes that arise over the business or business practices of our suppliers, payers and customers. The company maintains substantial insurance coverage against suits that may arise over issues of damaged, recalled or counterfeit product and other product liability issues. The company has also been a victim of the unapproved acts of prior management. These acts have resulted in claims from individuals and entities since the Board relieved former management of duty in 2006. Nonetheless, these claims have resulted in the use of management time and company resources to investigate, litigate, or settle. In addition, the company accrues contingent legal fees and product liability fees. As of March 31, 2012, our accrual was $200,500.

From time to time, the company may also be subject to demands from individuals or entities. These demands and disputes may consume management time and company resources. Other than as noted below, if there is such a disclosure, there are no pending matters at the current time that in management s judgment may be considered potentially material to us.

NOTE 9 SUBSEQUENT EVENTS

In accordance with ASC 855, management evaluated all activity of the Company through the issue date of the financial statements and concluded than that described below, no other subsequent events have occurred that would require recognition or disclosure in the financial statements.

FORWARD LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are forward-looking statements for purposes of federal and state securities laws, including, but not limited to, any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objections of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; any statements or belief; and any statements of assumptions underlying any of the foregoing.

Forward-looking statements may include the words may, might, could, estimate, intend, continue, believe anticipate or other similar words. These forward-looking statements present our estimates and assumptions only as of the date of this report. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the dates on which they are made. We do not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the dates they are made. You should, however, consult further disclosures we make in this Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and inherent risks and uncertainties. The factors influencing these risks and uncertainties include, but are not limited to the following:

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deterioration in general or regional economic, market and political conditions;

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our ability to successfully compete in the pharmaceutical supply industry;

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increased competitive pressures from existing competitors and new entrants;

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increases in interest rates or our cost of borrowing or a default under any material debt agreements;

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loss of customers or sales weakness;

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the fact that our accounting policies and methods are fundamental to how we report our financial condition and results of operations, and they may require management to make estimates about matters that are inherently uncertain;

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adverse state or federal legislation or regulation that increases the costs of compliance, or adverse findings by a regulator with respect to existing operations;

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changes in U.S. GAAP or in the legal, regulatory and legislative environments in the markets in which we operate;

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inability to efficiently manage our operations;

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inability to achieve future sales levels or other operating results;

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the unavailability of funds for capital expenditures;

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the other risks and uncertainties detailed in this report.

REFERENCES

As used in this quarterly report: (i) the terms we , us , our , Decision Diagnostics (formerly Instacare Corp.) a Company mean Decision Diagnostics Corp. and its operating subsidiaries, Decision IT Corp., Pharma Tech Solutions, Inc., PharmTech Direct Corp., and PDA Services, Inc. ; (ii) SEC refers to the Securities and Exchange Commission; (iii) Securities Act refers to the United States *Securities Act of 1933*, as amended; (iv) Exchange Act refers to the United States *Securities Exchange Act of 1934*, as amended; and (v) all dollar amounts refer to United States dollars unless otherwise indicated.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Overview

Decision Diagnostics Corp. is a nationwide prescription and non-prescription diagnostics and home testing products distributor. The U.S. FDA, in a manner similar to prescription drugs, regulates diagnostic test kits and at-home patient testing products similarly to the regulation of prescription medicine. However, the products we distribute, for the most part, do not require a doctor s prescription for anything other than insurance benefit compliance. Our business model works well in this regulated environment.

Our subsidiaries, Pharma Tech Solutions, Inc. and PDA Services, Inc. operate in several healthcare products distribution channels. We distribute brand name prescription and non-prescription diagnostics products, as well as several lines of ostomy, wound care and post-surgery medical products. We have also continued to gear up to introduce a proprietary diagnostic product, the Shasta Genstrip, for at-home testing of blood glucose, an estimated $22.5 billion worldwide market. Shasta Genstrip will compete directly with one of the largest worldwide platform manufacturer for at-home blood glucose testing, a product currently used daily by over 3 million diabetes afflicted Americans. In anticipation of the introduction of Genstrip, which is subject to FDA approval, and currently in that approval process, we have phased out sales of those brand name products that have been a backbone of our current distribution business but will, in the future, would compete directly with our Shasta Genstrip. Phasing out these products lowered our order intake by approximately $8,450,000 in FY2011 and $3,250,000 through the period ending March 31, 2012.

Typically, and except for our own Shasta Genstrip, which is an alternative product, we distribute name brand products manufactured primarily by large U.S. and international pharmaceutical companies. The company directs its marketing efforts to ambulatory and semi-ambulatory older Americans afflicted with diabetes and complications caused by diabetes and old age. The company, originally a medical IT company with proprietary IT product lines, acquired its medical products distribution business in late 2004 through a merger with Phoenix, Arizona based CareGeneration, Inc. We have grown the original CareGeneration business through subsequent acquisitions of private businesses and strategic partnerships with larger private pharmacies.

On November 1, 2011 we completed the acquisition of Diagnostic Newco LLC from its owner Kimberly Binder. Diagnostic Newco LLC is a design company that specializes in product packaging design, medical products advertising design and graphic art. Ms. Binder has joined the staff of the company s Pharma Tech Solutions, Inc. subsidiary and will work closely with the contract manufacturer for Genstrip, making subtle changes to packaging design among other responsibilities. She will also be responsible for the package design for new diagnostic products the company is working on. We intend to acquire additional private companies, focusing on small engineering companies that have developed technology requiring either regulatory approval, distribution or both. In December 2011 we made another small acquisition, to acquire the services of Mr. Patrick DiParini. We are moving quickly to achieve our goal of becoming a vertically integrated, full service value added provider of products and services to an ever-growing market. The at-home diabetes testing market continues to grow in excess of 20% per year where the market is expected to grow from a current $22.5+ billion worldwide base in 2010 to over $32 billion in 2017.

The company s current proprietary product offering is the Shasta Genstrip blood glucose diagnostic test strip for at-home testing. Shasta Genstrip is a product conceived and designed by Shasta Technologies LLC, and fits into a diagnostic product niche and will sell into the world-wide self-test (home test) market of $22.5 billion. The company has been involved with Genstrip since early 2010. Products like Genstrip require FDA approval but travel toward this approval through a well defined albeit slow and unresponsive regulatory process. The company believes that all regulatory hurdles have been addressed and satisfied, but as of April 30, 2012 Genstrip has not received final regulatory approval or disapproval from the FDA. In March 2012, representatives of the company and Shasta Technologies LLC met face-to-face with the FDA in an effort to ask and respond to questions in an effort to complete the FDA review process. Since Genstrip is a unique offering, employing a razor blade only model (diagnostic test strip) into a razor (diagnostic meter)-razor blade (diagnostic test strip) market, the Genstrip 510(k) application presents some unusual challenges for the FDA and an educational challenge/opportunity for the company. Since the company plans additional similar products in the future for other diagnostic platforms, the Genstrip experience, however slow and unresponsive, has provided lessons and experience.

Two years is a standard development to market timeline for in-vitro diagnostic products similar to Genstrip. As a result of previous delays in completing its FDA approval application [510(k)] and then problems Shasta encountered in prosecuting its original application with FDA staff, the company changed its contractual responsibilities and obligations in June 2011 to include program management, regulatory process management, management of the manufacturing forecasting and distribution processes, and new products planning and development.

In June 2010 the company was approached by the largest retailer in the world for the distribution and sale of Genstrip at over 5,000 retail stores worldwide. A contract with this retailer was negotiated in September 2010 and subsequently renegotiated and renewed in April 2011, and as soon as the retail contract was agreed to and as a means to conduct market research, the company began seeking pre-conditioned letters of intent (pre-orders) for Genstrip. While continuing the prosecution of the 510(k) application before the FDA, it became clear that initial market interest in Genstrip outstripped the initially available manufacturing capacity. Thus the company quickly ended its pre-order initiative. Management is confident that there is a very large market available for Genstrip, which on its first day of commercial availability, will be by far the company s largest selling product.

We also offer information technology solutions in several medical care market channels by providing physicians with information at the point of care. Our products, unlike those from many other medical information companies, make use of smart cell phones such as the Apple iPhone, the Palm Pre, the Google Droid and a wide selection of Microsoft Windows based smart phones and operate in either in a wireless or wired mode, which allow physicians to carry, access and update their patients histories, also known as electronic medical records or EMR, medication data, and best care guidelines - *all at the point of care*, or from any other location the physician may be located. In addition, the company s products employ proprietary mathematical game theory features adapted by the company for medical use that allow acceptance of diagnoses and treatment protocols where the medical information may have originated from one or several locations and one time or several times.

On February 26, 2010 we filed a full utility patent application, Management and Communications System and Method, Serial No. 13/034,639. The patent application covers one hundred four (104) separate processes and encompasses the method, system and apparatus of our software technology and the integration of our software technology into commercial computer networks through commercial smart cell phone devices. In September 2011, the USPTO published our patent application. In April 2011 the patent reached the prosecution stage with the USPTO. We expect approval in 2012. Given that our patent application lists a substantial number of claims, and that the company s technologies are truly unique, we felt it prudent to engage counsel to prosecute any of these claims against persons and entities that may have or will in the future breach our patent. The company has created an asset pool for the purpose of prosecuting any claims that may arise as a result of our patent approval. Claims prosecution is standard fare for high technology companies.

We have entered into nine partnerships with freestanding pharmacies and Durable Medical Goods distributors in the states of New York, Maryland, New Jersey, Texas and Arizona. We believe that we will be able to provide value added services to our customers by cost reductions brought about by increased efficiencies and cross marketing opportunities.

We have received multiple inquiries from companies interested in perhaps collaborating with the company for the implementation of its cell phone centric technologies MD@Hand and MD@Work. However, the market available for products similar to MD@Hand and MD@Work has changed since its introduction in 2009. The legal challenges to the new health care law, and the federal government s inability to enact regulations have altered the landscape, again. We remain in discussions with multiple concerns for the marketing of our MD@ products, and any agreement we may enter will require us to provide contract software programming, providing a new source of revenue for the company. In addition to any proposed partnerships, we continue to discuss alternative propositions with other interested companies ranging from clinical laboratories, service organizations owned or aligned with medical health insurers, a medical content provider and legacy healthcare systems companies. There remains sustained interest in our MD@ products and technology. All of our discussions are with companies are much larger than Decision Diagnostics. We may or may not entertain additional proposed partnerships for our implementation of the cell phone centric technologies, which has been hindered, as has the overall market, by the slow implementation of regulations, protocols and data formats by the Federal government, as well as a change in previously announced Federal government monetary incentives.

In May 2010, we entered into agreement with Shasta Technologies, Inc. and Broadtree, Inc. This agreement granted our Pharma Tech Solutions, Inc. subsidiary the exclusive marketing rights to a new diagnostic product not yet on the market named Shasta Genstrip (Genstrip). The Genstrip product was developed to compete against the market leader in the $20 billion at home testing market. In April 2011, the company renegotiated its agreement changing its many roles and adding responsibility for regulatory approval, manufacturing and forecasting, international sales and additional sales markets in the U.S.

We currently employ five full-time staff at our executive office located at 2660 Townsgate Road, Suite 300, Westlake Village, California 91361. In addition, we maintain two full-time and seven part-time positions between our distribution centers located in Florida, Arizona, California and New Jersey. The company is currently hiring pharmaceutical detail representatives and three medically trained college interns. All of our positions existing, and newly listed, are for sales and marketing, distribution, product development and customer service representatives. Our telephone number is (805) 446-1973 and our website address is www.decisiondiagnostics.com.

Business activities throughout the next twelve months:

The company s business on a day-to-day basis includes the distribution of prescription and non-prescription diagnostics, at-home testing, post-surgical products, and, as soon as the FDA grants pre-market approval, the sales and distribution of Shasta Genstrip.

Beginning in November 2009, we introduced our cell-phone centric medical IT products that offer solutions in medical care and management by providing physicians with information at the point of care. Unlike other medical information systems using standard computer terminals or even palm-sized computers (PDA s), our software applications operate on a series of late generation smart e-cell phones including the Apple iPhone, the Palm Pre, the Google Droid, several makes of RIM s Blackberry and many versions of the Microsoft Windows smart phones. Our products allow physicians to access and update their patients histories, medication data, and best care guidelines - *all at the point of care*. The company s Electronic Medical Records software is believed to be the first EMR application running on any palm sized mobile device. Recently we ported our software to run on a series of pad computers such as Apple iPad and the Droid powered pads.

Our business objectives include:

1. The practice of specializing in the distribution of brand-name medical diagnostic and medical disposable products associated with the on-going care of diabetes-inflicted patients and upon receipt of the pre-market letter from the U.S. FDA, the world-wide distribution of our new proprietary diagnostic product Shasta Genstrip.

2. Combining our wholesale and retail drug distribution with our cell phone centric technologies, creating wholesale and retail ePharmacies similar in function to existing Internet pharmacies but directed to serving the large base of underinsured and uninsured Americans; and

3. Providing medical communication and EMR medical history and storage devices based on networks of smart cell phones These products are believed to provide benefits of on demand medical information to private practice physicians, licensed medical service providers such as diagnostic testing laboratories, and medical insurers. We have created cell phone-centric products and a suite of Internet enhanced software applications that include those features that specifically respond to the requirements of the practicing physician and the regulations currently being promulgated by the Federal government.

We also have adapted our medical communications and EMR technologies to service the real estate management and hotel/motel/convenience industries in their own commercial settings. In March 2010, our Board approved the sale of the company s hotel/motel technologies and business base so we can focus on our core medical IT and medical distribution businesses. In past years when we had market focus on the hotel/motel industry, our real estate and hotel/motel objectives include building electronic commerce networks based on personal digital assistants (PDA) and pad based computers to the hotels, motels and single building, multi-unit apartment buildings with a desire to offer local advertising and electronic services to their tenants/guests.

Financing Requirements

At March 31, 2012, we had cash of $661 and working capital of $2,113,877. We anticipate that we will require $56 million in debt financing to finance our expected first year sales of Genstrip. In March 2012 we renewed our agreement with Alpha Credit Resources to obtain this debt financing. We will continue to seek a combination of equity and long-term debt financing as well as other traditional cash flow and asset backed financing to meet our financing needs and to reduce our overall cost of capital. Additionally, in order to accelerate our growth rate and to finance general corporate activities, we may supplement our existing sources of funds with financing arrangements at the operating system level or through additional short-term borrowings. As a further capital resource, we may sell or lease certain rights or assets from our portfolio as appropriate opportunities become available. However, there can be no assurance that we will be able to obtain any additional financing, on acceptable terms or at all.

Results of Operations for the three months ended March 31, 2012 and 2011 compared.

The following tables summarize selected items from the statement of operations for the three months ended March 31, 2012 compared to 2011.

	For the Three Months Ended March 31,					
		2012		2011		
					3 Months	**%Δ**
Revenue	$	2,506,380	$	3,123,041	(616,661)	(19.75)
Cost of sales		2,033,738		2,819,717	(785,979)	(27.87)
Gross profit		472,642		303,324	169,318	55.82
Expenses:						
General & administrative expenses		321,929		277,178	44,751	16.15
Consulting		107,556		47,294	60,262	127.42
Compensation expense		11,335		11,400	(65)	-
Professional fees		32,833		40,285	(7,452)	(18.5)
Total expenses		473,653		376,157	97,496	25.92
Net operating (loss)		(1,011)		(72,833)	(71,822)	(98.61)
Other income (expense):						
Financing costs		(36)		(198,002)	(197,966)	(99.98)
Interest expense, net		(86,797)		(111,795)	(24,998)	(22.36)
Settlement gain (loss)		(17,500)		41,849	59,349	141.82
Total other income (expense)		(104,333)		(267,948)	163,615	61.06
Net (loss)	$	(105,344)	$	(340,781)	235,437	69.09

The following discussion should be read in conjunction with the unaudited interim condensed consolidated financial statements (including the notes thereto) included under Item 1 in this Form 10-Q.

Revenues and cost of sales

During the 1st quarter of 2012, we experienced a decline in revenue compared to the same period in the previous year. We attribute the decline in revenue to the phasing out of sales of those brand name diagnostic products that will directly compete with our new Shasta Genstrip. In addition, the overall at home testing market is being hindered by the general poor economic conditions, longer payment sycles from insurers, and because the company s business model does not include the sale of retail brand-name products. These conditions have continued into the current year. Our decrease in cost of sales is primarily the direct result of our revenue decline. However, we were able to achieve an increase in our overall gross profit margin based on our re-negotiated wholesale pricing.

Operational Expenses

Operational expenses include general and administration expenses, compensation expense consulting and professional fees.

General and administration expenses include office expenses (including rent, cleaning and maintenance, utilities, and telephone), insurance, and bank charges. During the 1st quarter of 2012, general and administration expenses increased by $44,751 to $321,929 (1st quarter 2011 - $277,178). General and administration expenses normally account for approximately 2% of our total revenue and are not expected to increase significantly during the remainder of 2012 in relation to revenue. As we experience growth in revenues, general and administration expenses are expected to decrease on a percentage of revenue basis.

Consulting expenses during the 1st quarter 2012 increased by $60,262 to $107,556 (1st quarter 2011 - $47,294). Historically, management shifts its labor requirements between, outside consultants, casual labor and in-house management dependent upon availability and cost effectiveness of resources. During 2012, the majority of our labor was derived from the use of outside consultants. Our compensation structure is comprised of both cash and equity of the Company.

Professional fees include accounting services, legal fees and regulatory reporting compliance. The decrease of $7,452 is comprised of a decrease in both accounting and legal fees, the majority of which is attributable to a decrease in legal fees. During the 1st quarter of 2011, we engaged additional legal counsel to assist in the review of potential new sales/distributing agreements as well as to review general corporate matters. We anticipate our legal fees to continue until all ongoing litigation issues are resolved.

Other Income and Expense

Our other income and expense includes costs related to our financing activities, more specifically the interest expense associated with our line of credit with Alpha Credit Resources, LLC. (Alpha). Alpha has provided us a line of credit up to $2,500,000. The interest rate of our line of credit is 24% per annum. Interest expense decreased by $24,998 to $86,797 (1st quarter 2011 - $111,795).

For the three-month periods ended March 31, 2012 and 2011, management has entered into various agreements for the settlement of the Company s historic debt obligations. As a result of these negotiated settlements, the Company s obligations have been reduced from their historical carrying amounts. In 2012, settlement losses were $17,500. We may incur further gains or losses on debt settlement or other settlement cost during 2012.

Net Income (Loss)

We recorded a net loss for the 1st quarter of 2012 of $105,344 compared to a net loss for the 1st quarter of 2011 of $340,781, representing a decrease in loss of $235,437.

Liquidity and Capital Resources

A critical component of our operating plan affecting our continued existence is the ability to obtain favourable capital through additional equity and/or debt financing. We do not anticipate generating sufficient positive internal operating cash flow until we can increase our existing market share and improve operating margins, which may take several years. In the event we cannot obtain the necessary capital to pursue our strategic plan, we may have to cease or significantly curtail our operations. This would materially impact our ability to continue operations.

The following table summarizes our current assets, liabilities and working capital at March 31, 2012 compared to December 31, 2011.

		MARCH 31, 2012		DECEMBER 31, 2011		INCREASE (DECREASE) $	%
Current assets	$	4,613,577	$	4,537,949	$	75,628	(1.67%)
Current liabilities		2,550,170		2,532,217		17,953	1.0%
Working capital	$	2,063,407	$	2,005,732	$	57,675	(2.88%)

Cash to Operating Activities

During the three months, ended March 31, 2012, operating activities used cash of $69,691 compared to providing cash of $133,758 in 2011. Our loss for 2012 was $105,344 and included bad debt write-downs of $251,136 (2011 - $190,654); and consulting expenses settled with equity $95,000 (2011 - $32,167). Our accounts receivables have decreased by $353,609 (2011 $1,280,353) due to a slow down in our revenue cycle. Prepaid expenses increased by $12,638 (2011 $1,280,353) due to capitalization in 2011 of prepaid legal fees. Accounts payable and accrued liabilities have increased by $11,638 (2011 $59,872) due to our ability to a slow down in our revenue cycle.

Cash from Investing Activities

During the three months ended March 31, 2012, investing activities used cash of $25,000 (2011 - $2,459).

Cash from Financing Activities

During the three months ended March 31, 2012, financing activities provided cash of $80,483 (2011 241,311). Proceeds of $-0- (2011 - $41,785) were received from the issuance of common stock through exercise of options. During 1st quarter 2012, net interest of $80,483 (2011 199,526) was accrued from our line of credit.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Our Chief Financial Officer, Keith Berman, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (the Exchange Act). Based on that evaluation, the Company s Principal Executive Officer and Principal Financial Officer has concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective in ensuring that information required to be disclosed in our Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

There has been no change in the Company s internal controls over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Internal control systems, no matter how well designed and operated, have inherent limitations. Therefore, even a system, which is determined to be effective, cannot provide absolute assurance that all control issues have been detected or prevented. Our systems of internal controls are designed to provide reasonable assurance with respect to financial statement preparation and presentation.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We transact commerce in several medical products market channels. We also transact commerce by licensing our proprietary medical software that functions by moving confidential medical data through our proprietary medical information technology devices and networks. Our new Shasta Genstrip product required initial regulatory approval by the USFDA as well as on-going USFDA approvals during the product life cycle. Further, Shasta Genstrip required medical patient trials and will compete directly with a major platform manufacturer.

Healthcare, especially those segments where the company competes, is a very litigious. The medical industry is also intertwined. From time to time, we may become involved in claims and litigation that arise out of the normal course of business, such as litigation that emerges from disputes over damaged, missing or contaminated product. We may also become involved in disputes that arise over the business or business practices of our suppliers, payers and customers. The company maintains substantial insurance coverage against suits that may arise over issues of damaged, recalled or counterfeit product and other product liability issues. In addition, the company accrues contingent legal fees and product liability fees. The accrual totaled $200,500 and $205,500 for the three months ended March 31, 2012 and the year ended December 31, 2011, respectively.

From time to time, the company may also be subject to demands from individuals or entities. These demands and disputes may consume management time and company resources. Other than as noted below there are no pending matters at the current time that in management s judgment may be considered potentially material to us.

Monarch Pointe Fund, Ltd (BVI) in receivership vs. Decision Diagnostics Corp. et al.

On June 24, 2010, Monarch Point Fund, Ltd. (BVI) (in receivership) brought an action in United States District Court, Central District of California, Case # CV 10 4703 against Instacare Corp. (now known as Decision Diagnostics Corp.), Keith Berman and Robert Cox (a former Chairman and CEO) alleging conversion by Decision Diagnostics of certain Convertible Preferred Series C Stock allegedly owned by Monarch, breach of contract and breach of a promissory note. On August 12, 2010 the company received an initial formal settlement offer through the counsel for the Liquidator. The company settled this litigation in May 2011 by issuing to Monarch 214,286 (post-split) shares of its $0.001 par value common stock and agreeing to pay $50,000.

Lifescan Scotland, LLC vs. Shasta Technologies LLC, Decision Diagnostics Corp. (now known as Decision Diagnostics Corp.), Pharma Tech Solutions, Inc. et al.

On September 9, 2011 Lifescan Scotland, Ltd. brought suit against Shasta Technologies, LLC (Shasta), Instacare Corp. (now known as Decision Diagnostics Corp.), Pharma Tech Solutions, Inc. et al in the United States District Court, Northern District of California, San Jose Division, Case # CV11-04494-MEJ, alleging patent infringement, seeking injunctive relief and damages as a result of an alleged infringement on Patents 5,708,247 and 6,241,862. Instacare Corp. (now known as Decision Diagnostics Corp.) and Pharma Tech Solutions have answered the complaint, denying all of its material allegations and asserting a number of affirmative defenses. Decision Diagnostics Corp. and Pharma Tech Solutions, Inc. are entitled to be indemnified by Shasta Technologies LLC, and the lawfirm representing Shasta, in November 2011, notified Shasta s insurance carrier that Decision Diagnostics Corp. (formerly known as Instacare Corp.) and Pharma Tech Solutions, Inc. are entitled to a defense under Shasta s insurance policy. The companies also carry insurance and have demanded a defense from its own carriers. Since the suit remains in its early stages it is too soon to determine the course of the litigation. In December 2011 the company filed a motion in the United States District Court, Northern District of California, San Jose Division, Case # CV11-04494-MEJ for dismissal of the lawsuit due to a complete lack of proof presented by the Plasintiffs. The court currently has taken the company s motion under advisement. Management intends to vigorously defend this lawsuit, which it believes is without merit, and unless the lawsuit is dismissed, the company intends to file its own counter-claims.

ITEM 1A. RISK FACTORS.

Not applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES.

During the three months ended March 31, 2012, we issued 500,000 shares of our restricted common stock as consulting fees for services performed for the Company valued at $95,000. We believe that the issuance of the shares was exempt from the registration and prospectus delivery requirements of the Securities Act of 1933 by virtue of Section 4(2). The recipient of the shares was afforded an opportunity for effective access to files and records of the Company that contained the relevant information needed to make its investment decision, including the Company s financial statements and 34 Act reports. We reasonably believe that the recipient, immediately prior to issuing the shares, had such knowledge and experience in our financial and business matters that it was capable of evaluating the merits and risks of its investment. The recipient had the opportunity to speak with our president and directors on several occasions prior to its investment decision.

During the three months ended March 31, 2012, we issued 238 shares of our restricted common stock to Alpha Credit Resources as financing fees valued at $36 in connection with our line of credit. We believe that the issuance of the shares was exempt from the registration and prospectus delivery requirements of the Securities Act of 1933 by virtue of Section 4(2). The recipient of the shares was afforded an opportunity for effective access to files and records of the Company that contained the relevant information needed to make its investment decision, including the Company s financial statements and 34 Act reports. We reasonably believe that the recipient, immediately prior to issuing the shares, had such knowledge and experience in our financial and business matters that it was capable of evaluating the merits and risks of its investment. The recipient had the opportunity to speak with our president and directors on several occasions prior to its investment decision.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. (REMOVED AND RESERVED).

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS

The following exhibits are included with this Quarterly Report on Form 10-Q:

Exhibit Number	**Description of Exhibit**
31.1	Rule 13a-14(a)/15(d)-14(a) Certification of Principal Executive Officer and Principal Financial Officer
32.1	18 U.S.C. Section 1350 Certification of Principal Executive Officer and Principal Financial Officer

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DECISION DIAGNOSTICS CORP.

By: */s/Keith Berman*

Keith Berman

Chief Financial Officer and a Director

(Principal Financial Officer and Principal Accounting Officer)

Date: May 14, 2012

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$
1,756

$
(7,524
)
Other comprehensive income before reclassification
—

140

140

Amounts reclassified from accumulated other comprehensive loss, net of tax of $(0.1) million
121

—

121

Net current period other comprehensive income, net of tax
121

140

261

Accumulated other comprehensive (loss) income
$
(9,159
)

$
1,896

$
(7,263
)

Details of reclassifications out of accumulated other comprehensive loss during the three months ended March 31, 2014 are as follows:

(In thousands)	Amount reclassified from accumulated other comprehensive loss
Amortization of defined benefit pension items:	
Prior service cost (1)	$40
Amortization of actuarial loss (1)	153
Total before tax	193
Income tax benefit	(72)
Amount reclassified out of accumulated other comprehensive loss	$121

(1) These accumulated other comprehensive loss components are included in the computation of net periodic benefit cost (income) in Note 3 "Employee Benefit Plans."

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Components of and changes in accumulated other comprehensive loss at March 31, 2013 are as follows:

(In thousands)	Unrecognized pension and postretirement benefits	Foreign currency	Total
Balance at beginning of period	$(15,532)	$1,584	$(13,948)
Other comprehensive income before reclassification	—	(521)	(521)
Amounts reclassified from accumulated other comprehensive loss, net of tax of $(0.1) million	162	—	162
Net current period other comprehensive income, net of tax	162	(521)	(359)
Accumulated other comprehensive (loss) income	$(15,370)	$1,063	$(14,307)

Details of reclassifications out of accumulated other comprehensive loss during the three months ended March 31, 2013 are as follows:

(In thousands)	Amount reclassified from accumulated other comprehensive loss
Amortization of defined benefit pension items:	
Prior service cost (1)	40
Amortization of actuarial loss (1)	218
Total before tax	258
Income tax benefit	(96)
Amount reclassified out of accumulated other comprehensive loss	$162

(1) These accumulated other comprehensive loss components are included in the computation of net periodic benefit cost (income) in Note 3 "Employee Benefit Plans."

Note 5 Acquisitions

On April 1, 2013, the Company acquired 100% of the outstanding common stock of Aquacue, Inc. (“Aquacue”) of Los Gatos, California. The Aquacue acquisition provides the Company with intellectual property that complements and expands the Company's advanced metering analytics offerings by adding an integrated software platform that allows utility managers to monitor and control their water systems, while providing water management data to consumers.

The purchase price was $13.8 million in cash, including a small working capital adjustment. The purchase price included a final $3.0 million payment, of which half was due January 10, 2014 and half is due October 10, 2014, and these amounts were recorded in payables on the Consolidated Balance Sheets at December 31, 2013. As of December 31, 2013, the Company completed its analysis for estimating the fair value of the assets acquired and liabilities assumed, and merged Aquacue into Badger Meter, Inc.

The acquisition was accounted for under the purchase method, and accordingly, the results of operations are included in the Company's financial statements from the date of acquisition. The acquisition did not have a material impact on the Company's consolidated condensed financial statements or the notes thereto for 2013.

Note 6 Contingencies, Litigation and Commitments

In the normal course of business, the Company is named in legal proceedings. There are currently no material legal proceedings pending with respect to the Company. The more significant legal proceedings are discussed below.

The Company is subject to contingencies related to environmental laws and regulations. The Company is named as one of many potentially responsible parties in two landfill lawsuits. The landfill sites are impacted by the Federal Comprehensive Environmental Response, Compensation and Liability Act and other environmental laws and regulations. At this time, the Company does not believe the ultimate resolution of these matters will have a material adverse effect on the

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Company’s financial position or results of operations, either from a cash flow perspective or on the financial statements as a whole. This belief is based on the Company’s assessment of its limited past involvement with these landfill sites as well as the substantial involvement of and government focus on other named third parties with these landfill sites. However, due to the inherent uncertainties of such proceedings, the Company cannot predict the ultimate outcome of any of these matters. A future change in circumstances with respect to these specific matters or with respect to sites formerly or currently owned or operated by the Company, off-site disposal locations used by the Company, and property owned by third parties that is near such sites, could result in future costs to the Company and such amounts could be material. Expenditures for compliance with environmental control provisions and regulations during 2013 and the first quarter of 2014 were not material.

Like other companies in recent years, the Company is named as a defendant in numerous pending multi-claimant/multi-defendant lawsuits alleging personal injury as a result of exposure to asbestos, manufactured by third parties, and integrated into or sold with a very limited number of the Company’s products. The Company is vigorously defending itself against these claims. Although it is not possible to predict the ultimate outcome of these matters, the Company does not believe the ultimate resolution of these issues will have a material adverse effect on the Company’s financial position or results of operations, either from a cash flow perspective or on the financial statements as a whole. This belief is based in part on the fact that no claimant has proven or substantially demonstrated asbestos exposure caused by products manufactured or sold by the Company and that a number of cases have been voluntarily dismissed.

The Company relies on single suppliers for most brass castings and certain electronic subassemblies in several of its product lines. The Company believes these items would be available from other sources, but that the loss of certain suppliers would result in a higher cost of materials, delivery delays, short-term increases in inventory and higher quality control costs in the short term. The Company attempts to mitigate these risks by working closely with key suppliers, purchasing minimal amounts from alternative suppliers and by purchasing business interruption insurance where appropriate.

The Company reevaluates its exposures on a periodic basis and makes adjustments to reserves as appropriate.

Note 7 Income Taxes

The provision for income taxes as a percentage of earnings before income taxes for the first quarter of 2014 was 37.4% compared to 35.1% in the first quarter of 2013. The increase for the first three months of 2014 was due primarily to the recognition in the first quarter of 2013 of 2012 research and development credits identified in the first quarter of 2013. Without such recognition, the tax rates for the first quarter of 2014 and 2013 would have been similar. Generally, the effective tax rate is higher than the Federal statutory rate due to state income taxes, mitigated somewhat by manufacturing credits.

Note 8 Fair Value Measurements of Financial Instruments

The Company applies the accounting standards for fair value measurements and disclosures for its financial assets and financial liabilities. The carrying amounts of cash, receivables and payables in the financial statements approximate their fair values due to the short-term nature of these financial instruments. Short-term debt is comprised of notes payable drawn against the Company's lines of credit and commercial paper. Because of its short-term nature, the carrying amount of the short-term debt also approximates fair value. Included in other assets are insurance policies on various individuals who were associated with the Company. The carrying amounts of these insurance policies approximate their fair value.

Note 9 Subsequent Events

The Company evaluates subsequent events at the date of the balance sheet as well as conditions that arise after the balance sheet date but before the financial statements are issued. The effects of conditions that existed at the date of the balance sheet date are recognized in the financial statements. Events and conditions arising after the balance sheet date but before the financial statements are issued are evaluated to determine if disclosure is required to keep the financial statements from being misleading. To the extent such events and conditions exist, if any, disclosures are made regarding the nature of events and the estimated financial effects for those events and conditions. For purposes of preparing the accompanying consolidated financial statements and the notes to these financial statements, the Company evaluated subsequent events through the date the accompanying financial statements were issued.

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Item 2 Management’s Discussion and Analysis of Financial Condition and Results of Operations

Business Description and Overview

An innovator in flow measurement and control products, the Company serves water utilities, municipalities, and commercial and industrial customers worldwide. Measuring water, oil, chemicals and other fluids, the Company’s products are known for accuracy, long-lasting durability and for providing valuable and timely measurement data. The Company’s product lines fall into three categories: sales of water meters and related technologies to municipal water utilities (municipal water), sales of meters to various industries for water and other fluids (flow instrumentation), and sales of gas meter radios and concrete vibrators to unique markets (specialty products). The Company estimates that over 75% of its products are used in water applications when all categories are grouped together.

Municipal water, the largest category by sales volume, includes mechanical and electronic (static) water meters and related technologies and services used by water utilities as the basis for generating water and wastewater revenues. The key market for the Company’s water meter products is North America, primarily the United States, because most meters are designed and manufactured to conform to standards promulgated by the American Water Works Association. Sales of water meters and related technologies and services are commonly referred to as residential or commercial water meter sales, the latter referring to larger sizes of meters.

Flow instrumentation includes products sold worldwide to measure and control materials flowing through a pipe or pipeline including water, air, steam, oil, and other liquids and gases. These meters and valves are used in a variety of applications, such as water/wastewater; heating, ventilating and air conditioning (HVAC); oil and gas; chemical and petrochemical; food and beverage; and pharmaceutical production.

Specialty products include sales of radio technology to natural gas utilities for installation on their gas meters, and concrete vibrators.

Residential and commercial water meters are generally classified as either manually read meters or remotely read meters via radio technology. A manually read meter consists of a water meter and a register that gives a visual meter reading display. Meters equipped with radio transmitters (endpoints) use encoder registers to convert the measurement data from the meter into an encrypted digital format which is then transmitted via radio frequency to a receiver that collects and formats the data appropriately for water utility billing systems. Mobile systems, referred to as automatic meter reading (AMR) systems, have been the primary technology deployed by water utilities over the past two decades, providing accurate and cost-effective billing data. In an AMR system, a vehicle equipped for meter reading purposes, including a radio receiver, computer and reading software, collects the data from utilities’ meters.

Fixed network advanced metering infrastructure (AMI) systems continue to build interest among water utilities. These systems incorporate a network of permanent data collectors or gateway receivers that are always active or listening for the radio transmission from the utilities’ meters. AMI systems eliminate the need for utility personnel to drive through service territories to collect meter reading data. These systems provide the utilities with more frequent and diverse data from the utilities’ meters at specified intervals.

In 2011, the Company introduced what it believes is the next generation of metering technology, advanced metering analytics (AMA), along with a host of automated utility management tools to facilitate the ability of water and gas utilities to increase their productivity and revenue, as well as proactively utilize their data. AMA is comprised of ReadCenter® Analytics software coupled with ORION® SE two-way fixed network or GALAXY® one-way fixed network technology, which is complemented by a family of highly accurate and reliable water meters.

The ORION SE system can operate in either a mobile or fixed network mode depending on the deployment needs of the utility. For example, a water or gas utility can begin deployment in mobile mode and transition to a fixed network system without visiting the endpoint. Once deployed, if the system is operating in fixed network mode and the gateway data collector stops functioning, the endpoint will continue to send data that can be captured by a mobile system. Once the gateway data collector functions again, the utility will again receive data through the fixed network system.

In January 2014, the Company launched its new BEACON AMA system. BEACON AMA combines the BEACON analytical software suite with proven ORION AMI technology using fixed and cellular networks in a managed solution, improving utilities' visibility of their water consumption and reducing the need for costly infrastructure. With the release of BEACON AMA, Badger Meter also became the first major worldwide water meter company to release a cost-effective cellular-based solution for system wide deployment. BEACON AMA enables two-way communication between the water meter and the meter reading system.

The BEACON AMA secure, hosted software suite includes a customizable dashboard, the ability to establish alerts for specific conditions, and consumer engagement tools that allow end water customers to view and manage their water usage activity. Benefits to the utility include faster leak detection, easier revenue management, the ability to quantify the effects of its water conservation efforts, easier compliance reporting, and improved customer service.

The Company’s net sales and corresponding net earnings depend on unit volume and product mix, with the Company generally earning higher margins on meters equipped with radio technology. In addition to selling its proprietary radio products, including the ORION radio technologies and GALAXY AMI/AMA system, the Company also remarkets the Itron® radio products under a license and distribution agreement with Itron. The Company’s proprietary radio products generally result in higher margins than the remarketed, non-proprietary technology products. The Company also sells registers and endpoints separately to customers who wish to upgrade their existing meters in the field.

The proprietary ORION endpoint technology has been licensed to other technology providers on a non-exclusive basis, including those providing radio products that communicate over power lines, broadband networks, and proprietary radio frequency networks, allowing ORION a distinct advantage in the radio solutions market. In addition, the ORION universal gateway receiver transmits data over a variety of public wireless networks, which allows for strategic deployments, such as monitoring large commercial users.

Water meter replacement and the adoption and deployment of new technology comprise the majority of water meter product sales, including radio products. To a much lesser extent, housing starts also contribute to the new product sales base. Over the last decade, there has been a growing trend in the conversion from manually read water meters to radio technology. This conversion rate is accelerating and contributes to an increased water meter and radio solutions base of business. The Company estimates that less than 43% of water meters installed in the United States have been converted to a radio solutions technology. The Company’s strategy is to fulfill customers’ metering expectations and requirements with its proprietary meter reading systems or other systems available through its alliance partners in the marketplace.

Flow instrumentation and specialty products serve flow measurement and control applications across a broad industrial spectrum. Specialized communication protocols that control the entire flow measurement process drive these markets. The Company’s specific flow measurement and control applications and technologies serve the flow measurement market through both customized and standard precision flow measurement technologies.

Business Trends

Increasingly, the electric utility industry relies on AMI technology for two-way communication to monitor and control electrical devices at the customer's site. Although the Company does not sell products for electric market applications, the trend toward AMI affects the markets in which the Company does participate, particularly for those customers in the water utility market that are interested in more frequent and diverse data collection. Specifically, AMI and AMA technologies enable water utilities to capture readings from each meter at more frequent and variable intervals. Similar to the electric utility industry a few years ago, the water utility industry is beginning to see the adoption of electronic (static) water meters. Electronic water metering has lower barriers to entry which could affect the competitive landscape in North America.

The Company sells its technology solutions to meet customer requirements. Since the technology products have comparable margins, any change in the mix between AMR, AMI or AMA is not expected to have a significant impact on the Company's net sales related to meter reading technology.

There are approximately 53,000 water utilities in the United States and the Company estimates that less than 43% of them have converted to a radio solutions technology. Although there is growing interest in AMI and AMA communication by water utilities, the vast majority of utilities installing such technology continue to select AMR technologies for their applications. The Company's ORION technology has experienced rapid acceptance in the United States as an increasing number of water utilities have selected ORION as their AMR solution. The Company anticipates that even with growing interest in AMI and AMA, AMR will continue to be the primary product of choice for a number of years. For many water utilities, AMR technology is simply the most cost-effective solution available today. However, with the introduction of its newer product offerings, including the recently introduced BEACON AMA system, the Company believes it is well-positioned to meet customers' future needs.

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Acquisition

On April 1, 2013, the Company acquired 100% of the outstanding common stock of Aquacue, Inc. (“Aquacue”) of Los Gatos, California. The Aquacue acquisition provides the Company with intellectual property that complements and expands the Company’s advanced metering analytics offerings by adding an integrated software platform that allows utility managers to monitor and control their water systems, while providing water management data to consumers.

The purchase price was $13.8 million in cash, including a small working capital adjustment. The purchase price included a final $3.0 million payment, of which half was due January 10, 2014 and half is due October 10, 2014, and these amounts were recorded in payables on the Consolidated Balance Sheets at December 31, 2013. As of December 31, 2013, the Company completed its analysis for estimating the fair value of the assets acquired and liabilities assumed, and merged Aquacue into Badger Meter, Inc. This acquisition is further described in Note 5 “Acquisition” in the Notes to Unaudited Consolidated Condensed Financial Statements.

Revenue and Product Mix

Prior to the Company's introduction of its own proprietary radio products, for example ORION and GALAXY, Itron water utility-related products were a dominant radio products contributor to the Company's results. Itron products are sold under an agreement between the Company and Itron, Inc. that has been renewed multiple times and is in effect until early 2016. The Company's radio products directly compete with Itron water radio products. In recent years, many of the Company's customers have selected the Company's proprietary products over Itron products. While the Company's proprietary product sales are generally greater than those of the Itron licensed products, the Company expects that Itron products will remain a significant component of sales to water utilities. Continuing substantial sales in both product lines underscores the continued acceptance of radio technology by water utilities and affirms the Company's strategy of selling Itron products in addition to its own proprietary products.

As the industry continues to evolve, the Company has been vigilant in anticipating and exceeding customer expectations. In 2011, the Company introduced AMA as a hardware and software solution for water and gas utilities, and then in early 2014 launched its new BEACON AMA system as a managed solution which it believes will help maintain the Company's position as a market leader. Results for this new product were not significant in the first quarter of 2013.

The Company continues to seek opportunities for additional revenue enhancement. For instance, the Company is periodically asked to oversee and perform field installation of its products for certain customers. The Company assumes the role of general contractor, hiring installation subcontractors and supervising their work. The Company also supports its product and technology sales with the sale of extended service programs that provide additional services beyond the standard warranty. In recent years, the Company has sold ORION radio technology to natural gas utilities for installation on their gas meters. With the exception of a large sale of gas radios to one particular customer several years ago, the revenues from such products and services are not yet significant and the Company is uncertain of the potential growth achievable for such products and services in future periods.

Results of Operations - Three Months Ended March 31, 2014

The Company’s net sales for the three months ended March 31, 2014 increased $11.7 million, or 16.3%, to $83.5 million compared to $71.8 million during the same period in 2013. The increase was the net result of higher sales of municipal water and flow instrumentation products, offset slightly by lower specialty product sales.

Municipal water sales increased $10.9 million, or 23.3%, to $57.7 million in the first quarter of 2014 from $46.8 million in the first quarter of 2013. These sales represented 69.1% of sales for the three months ended March 31,

2014. The increase was due to higher sales of residential meters both with and without radio technology as well as higher commercial meter sales. Sales of residential meters increased 17.6% due primarily to higher volumes of product sold. Commercial meter sales increased 62.4% in this period over the same period in 2013 also due to higher volumes of products sold. Winter weather and a particular quarter’s mix of customers can have an impact on overall results. The results in the first quarter of 2013 were adversely affected by weather for that quarter’s particular mix of customers. While weather also had an impact on the first quarter of 2014 for certain areas of the country, much of the sales increase in the quarter was due to customers in states that experienced a milder than normal winter.

Flow instrumentation products represented 28.4% of sales for the three months ended March 31, 2014 compared to 30.6% in the same period in 2013. These sales increased $1.7 million, or 7.7%, to $23.7 million from $22.0 million in the same period last year. Sales were affected by higher volumes of products sold in most of this category’s product lines.

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Specialty application products represented 2.5% of sales for the three months ended March 31, 2014. These sales decreased $0.9 million, or 30.0%, in the first quarter of 2014, to $2.1 million from $3.0 million during the same period in 2013. The decrease was due primarily to lower sales of gas radios, offset slightly by an increase in sales of concrete vibrators.

Gross margin as a percentage of sales was 34.7% in the first quarter of 2014 compared to 34.9% in the first quarter of 2013. The slight decline was due to product mix as there were increases in manually read meters that carry lower margins. Offsetting this somewhat were higher unit volumes and better capacity utilization.

Selling, engineering and administration expenses for the three months ended March 31, 2014 increased $0.9 million, or 4.7%, from the same period in 2013. Included in this year's expenses were charges totaling $1.7 million (approximately $0.07 per diluted share) related to due diligence and other transaction costs related to a potential acquisition that ultimately was not pursued. The remainder of the change in selling, engineering and administration expenses for the three months ended March 31, 2014 compared to the same period in 2013 was due primarily to lower product development costs as compared to last year when significantly higher charges were being incurred for products now released. Product development expenses in the most recent quarter returned to more historic levels.

Operating earnings for the first quarter of 2014 increased $3.0 million, or 63.8%, to $7.7 million compared to $4.7 million in the same period in 2013 primarily as a result of the higher sales and gross margins, offset by higher selling, engineering and administration expenses.

Interest expense for the quarter ended March 31, 2014 increased slightly compared to the first quarter of 2013 due to higher average debt balances.

The provision for income taxes as a percentage of earnings before income taxes for the first quarter of 2014 was 37.4% compared to 35.1 % in the first quarter of 2013. The increase was due primarily to the recognition in the first quarter of 2013 of 2012 research and development credits identified in the first quarter of 2013 due to enacted legislation. Other components of the provision for income taxes were similar in both periods.

As a result of the above mentioned items, net earnings for the first three months ended March 31, 2014 were $4.6 million, or $0.32 per diluted share, compared to $2.9 million, or $0.20 per diluted share, for the same period in 2013.

Liquidity and Capital Resources

The main sources of liquidity for the Company are cash from operations and borrowing capacity. Cash provided by operations was $0.6 million for the first three months of 2014 compared to $4.3 million in the same period in 2013. The effects of higher net income in the first three months of 2014 were offset by the increase in receivables and inventories.

Receivables increased from $50.1 million at December 31, 2013 to $54.7 million at March 31, 2014. Generally, sales are lower in the fourth quarter resulting in lower receivable balances at year end. The Company believes its net receivables balance is fully collectible.

Inventories at March 31, 2014 increased $3.1 million to $64.0 million at March 31, 2014 from $60.9 million at December 31, 2013 due to timing of inventory purchases and support for improved sales.

Net property, plant and equipment at March 31, 2014 increased to $77.3 million from $76.4 million at December 31, 2013. This was the net effect of $3.3 million of capital expenditures, partially offset by depreciation expense.

Intangible assets decreased to $56.1 million at March 31, 2014 from $57.3 million at December 31, 2013 due to normal amortization expense.

Short-term debt increased from $70.0 million at December 31, 2013 to $73.9 million at March 31, 2014 as the Company utilized its borrowing capacity for short-term working capital requirements.

Payables decreased to $17.4 million at March 31, 2014 from $18.6 million at December 31, 2013 due primarily to the timing of purchases and payments.

Accrued income and other taxes increased to $3.1 million at March 31, 2014 from $1.2 million at December 31, 2013 due to the higher net earnings and corresponding tax effect, as well as the timing of tax payments.

Other non-current accrued employee benefits decreased to $4.1 million at March 31, 2014 from $4.4 million at December 31, 2013. The decrease was due to the first quarter 2014 payment of employee benefits related to 2013 operations, offset somewhat by employee incentives recorded in 2014 for results to date.

The overall increase in total shareholders’ equity from $196.6 million at December 31, 2013 to $199.8 million at March 31, 2014 was the net effect of net earnings and stock options exercised, offset by dividends paid.

The Company’s financial condition remains strong. In May 2012, the Company signed a credit agreement that increased its principal line of credit from $90.0 million to $125.0 million with its primary lender for a three year period. The line was reduced by $16.7 million in May 2013 and will be reduced by a similar amount in May 2014. While the facility is unsecured, there are a number of financial covenants with which the Company is in compliance. The Company believes that its operating cash flows, available borrowing capacity, and its ability to raise capital provide adequate resources to fund ongoing operating requirements, future capital expenditures and the development of new products. The Company continues to take advantage of its local commercial paper market and carefully monitors the current borrowing market. The Company had $44.1 million of unused credit lines available at March 31, 2014.

Other Matters

In the normal course of business, the Company is named in legal proceedings. There are currently no material legal proceedings pending with respect to the Company. The more significant legal proceedings are discussed below.

The Company is subject to contingencies related to environmental laws and regulations. The Company is named as one of many potentially responsible parties in two landfill lawsuits. The landfill sites are impacted by the Federal Comprehensive Environmental Response, Compensation and Liability Act and other environmental laws and regulations. At this time, the Company does not believe the ultimate resolution of these matters will have a material adverse effect on the Company’s financial position or results of operations, either from a cash flow perspective or on the financial statements as a whole. This belief is based on the Company’s assessment of its limited past involvement with these landfill sites as well as the substantial involvement of and government focus on other named third parties with these landfill sites. However, due to the inherent uncertainties of such proceedings, the Company cannot predict the ultimate outcome of any of these matters. A future change in circumstances with respect to these specific matters or with respect to sites formerly or currently owned or operated by the Company, off-site disposal locations used by the Company, and property owned by third parties that is near such sites, could result in future costs to the Company and such amounts could be material. Expenditures for compliance with environmental control provisions and regulations during 2013 and the first quarter of 2014 were not material.

Like other companies in recent years, the Company is named as a defendant in numerous pending multi-claimant/multi-defendant lawsuits alleging personal injury as a result of exposure to asbestos, manufactured by third parties, and integrated into or sold with a very limited number of the Company’s products. The Company is vigorously defending itself against these claims. Although it is not possible to predict the ultimate outcome of these matters, the Company does not believe the ultimate resolution of these issues will have a material adverse effect on the Company’s financial position or results of operations, either from a cash flow perspective or on the financial statements as a whole. This belief is based in part on the fact that no claimant has proven or substantially demonstrated asbestos exposure caused by products manufactured or sold by the Company and that a number of cases have been voluntarily dismissed.

See the “Special Note Regarding Forward Looking Statements” at the front of this Quarterly Report on Form 10-Q and Part I, Item 1A “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013 for a discussion of risks and uncertainties that could impact the Company's financial performance and results of operations.

Off-Balance Sheet Arrangements and Contractual Obligations

The Company's off-balance sheet arrangements and contractual obligations are discussed in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the headings "Off-Balance Sheet Arrangements" and "Contractual Obligations" in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 and have not materially changed since that report was filed unless otherwise indicated in this Form 10-Q.

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Item 3 Quantitative and Qualitative Disclosures about Market Risk

The Company's quantitative and qualitative disclosures about market risk are included in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Market Risks" in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 and have not materially changed since that report was filed.

Item 4 Controls and Procedures

Evaluation of Disclosure Controls and Procedures

In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), the Company's management evaluated, with the participation of the Company's Chairman, President and Chief Executive Officer and the Company's Senior Vice President - Finance, Chief Financial Officer and Treasurer, the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the quarter ended March 31, 2014. Based upon their evaluation of these disclosure controls and procedures, the Company's Chairman, President and Chief Executive Officer and the Company's Senior Vice President - Finance, Chief Financial Officer and Treasurer concluded that, as of the date of such evaluation, the Company's disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2014 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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Part II – Other Information
Item 6 Exhibits

Exhibit No.	Description
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Periodic Financial Report by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Condensed Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Condensed Statements of Cash Flows, (v) Notes to Unaudited Consolidated Condensed Financial Statements, tagged as blocks of text and (vi) document and entity information.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		BADGER METER, INC.
Dated: April 23, 2014	By	/s/ Richard A. Meeusen Richard A. Meeusen Chairman, President and Chief Executive Officer
	By	/s/ Richard E. Johnson Richard E. Johnson Senior Vice President – Finance, Chief Financial Officer and Treasurer
	By	/s/ Beverly L. P. Smiley Beverly L. P. Smiley Vice President – Controller

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BADGER METER, INC.

Quarterly Report on Form 10-Q for the Period Ended March 31, 2014

Exhibit Index

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