

Form 5500 Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Annual Return/Report of Employee Benefit Plan This form is required to be filed for employee benefit plans under sections 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and sections 6057(b) and 6058(a) of the Internal Revenue Code (the Code). ► Complete all entries in accordance with the instructions to the Form 5500.	OMB Nos. 1210-0110 1210-0089 2016 This Form is Open to Public Inspection
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Part I	Annual Report Identification Information		
For calendar plan year 2016 or fiscal plan year beginning <u>01/01/2016</u> and ending <u>12/31/2016</u>			
A This return/report is for:	☐ a multiemployer plan	☐ a multiple-employer plan (Filers checking this box must attach a list of participating employer information in accordance with the form instructions.)	
	☒ a single-employer plan	☐ a DFE (specify) _____	
B This return/report is:	☐ the first return/report	☐ the final return/report	
	☐ an amended return/report	☐ a short plan year return/report (less than 12 months)	
C If the plan is a collectively-bargained plan, check here.	☐		
D Check box if filing under:	☒ Form 5558	☐ automatic extension	☐ the DFVC program
	☐ special extension (enter description)		

Part II	Basic Plan Information —enter all requested information		
1a Name of plan <u>INTEGRITY APPLICATIONS INCORPORATED EMPLOYEE STOCK OWNERSHIP PLAN</u>	1b Three-digit plan number (PN) ►	<u>002</u>	
	1c Effective date of plan	<u>01/01/2015</u>	
2a Plan sponsor's name (employer, if for a single-employer plan) Mailing address (include room, apt., suite no. and street, or P.O. Box) City or town, state or province, country, and ZIP or foreign postal code (if foreign, see instructions) <u>INTEGRITY APPLICATIONS INCORPORATED</u> <u>15020 CONFERENCE CENTER DRIVE,</u> <u>SUITE 100</u> <u>CHANTILLY, VA 20151</u>	2b Employer Identification Number (EIN) <u>54-1889710</u>	2c Plan Sponsor's telephone number <u>703-378-8672</u>	
	2d Business code (see instructions) <u>541519</u>		

Caution: A penalty for the late or incomplete filing of this return/report will be assessed unless reasonable cause is established.

Under penalties of perjury and other penalties set forth in the instructions, I declare that I have examined this return/report, including accompanying schedules, statements and attachments, as well as the electronic version of this return/report, and to the best of my knowledge and belief, it is true, correct, and complete.

SIGN HERE	<u>Filed with authorized/valid electronic signature.</u>	<u>09/22/2017</u>	<u>LINDA M WHITE</u>
	Signature of plan administrator	Date	Enter name of individual signing as plan administrator
SIGN HERE			
	Signature of employer/plan sponsor	Date	Enter name of individual signing as employer or plan sponsor
SIGN HERE			
	Signature of DFE	Date	Enter name of individual signing as DFE
Preparer's name (including firm name, if applicable) and address (include room or suite number)			Preparer's telephone number

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3a Plan administrator's name and address ☒ Same as Plan Sponsor	3b Administrator's EIN 3c Administrator's telephone number <div style="background-color: #cccccc; height: 40px; width: 100%;"></div>
4 If the name and/or EIN of the plan sponsor has changed since the last return/report filed for this plan, enter the name, EIN and the plan number from the last return/report: a Sponsor's name	4b EIN 4c PN
5 Total number of participants at the beginning of the plan year	5 602
6 Number of participants as of the end of the plan year unless otherwise stated (welfare plans complete only lines 6a(1) , 6a(2) , 6b , 6c , and 6d). a(1) Total number of active participants at the beginning of the plan year..... a(2) Total number of active participants at the end of the plan year b Retired or separated participants receiving benefits..... c Other retired or separated participants entitled to future benefits d Subtotal. Add lines 6a(2) , 6b , and 6c e Deceased participants whose beneficiaries are receiving or are entitled to receive benefits. f Total. Add lines 6d and 6e g Number of participants with account balances as of the end of the plan year (only defined contribution plans complete this item) h Number of participants that terminated employment during the plan year with accrued benefits that were less than 100% vested	<div style="background-color: #cccccc; height: 20px; width: 100%;"></div> 6a(1) 599 6a(2) 615 6b 0 6c 35 6d 650 6e 0 6f 650 6g 630 6h 32
7 Enter the total number of employers obligated to contribute to the plan (only multiemployer plans complete this item).....	7
8a If the plan provides pension benefits, enter the applicable pension feature codes from the List of Plan Characteristics Codes in the instructions: 2P 2Q b If the plan provides welfare benefits, enter the applicable welfare feature codes from the List of Plan Characteristics Codes in the instructions:	

9a Plan funding arrangement (check all that apply) (1) ☐ Insurance (2) ☐ Code section 412(e)(3) insurance contracts (3) ☒ Trust (4) ☐ General assets of the sponsor	9b Plan benefit arrangement (check all that apply) (1) ☐ Insurance (2) ☐ Code section 412(e)(3) insurance contracts (3) ☒ Trust (4) ☐ General assets of the sponsor
10 Check all applicable boxes in 10a and 10b to indicate which schedules are attached, and, where indicated, enter the number attached. (See instructions)	
a Pension Schedules (1) ☒ R (Retirement Plan Information) (2) ☐ MB (Multiemployer Defined Benefit Plan and Certain Money Purchase Plan Actuarial Information) - signed by the plan actuary (3) ☐ SB (Single-Employer Defined Benefit Plan Actuarial Information) - signed by the plan actuary	b General Schedules (1) ☒ H (Financial Information) (2) ☐ I (Financial Information – Small Plan) (3) ☐ <u>0</u> A (Insurance Information) (4) ☐ C (Service Provider Information) (5) ☐ D (DFE/Participating Plan Information) (6) ☐ G (Financial Transaction Schedules)

Part III Form M-1 Compliance Information (to be completed by welfare benefit plans)

11a If the plan provides welfare benefits, was the plan subject to the Form M-1 filing requirements during the plan year? (See instructions and 29 CFR 2520.101-2.) ☐ Yes ☐ No

If "Yes" is checked, complete lines 11b and 11c.

11b Is the plan currently in compliance with the Form M-1 filing requirements? (See instructions and 29 CFR 2520.101-2.) ☐ Yes ☐ No

11c Enter the Receipt Confirmation Code for the 2016 Form M-1 annual report. If the plan was not required to file the 2016 Form M-1 annual report, enter the Receipt Confirmation Code for the most recent Form M-1 that was required to be filed under the Form M-1 filing requirements. (Failure to enter a valid Receipt Confirmation Code will subject the Form 5500 filing to rejection as incomplete.)

Receipt Confirmation Code _____

SCHEDULE H (Form 5500) <small>Internal Revenue Service</small> <small>Department of Labor</small> <small>Employee Benefits Security Administration</small> <small>Pension Benefit Guaranty Corporation</small>	Financial Information This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA), and section 6058(a) of the Internal Revenue Code (the Code). ► File as an attachment to Form 5500.	<small>OMB No. 1210-0110</small> 2016 This Form is Open to Public Inspection
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For calendar plan year 2016 or fiscal plan year beginning <u>01/01/2016</u> and ending <u>12/31/2016</u>		
A Name of plan <u>INTEGRITY APPLICATIONS INCORPORATED EMPLOYEE STOCK OWNERSHIP PLAN</u>	B Three-digit plan number (PN) ►	<u>002</u>
C Plan sponsor's name as shown on line 2a of Form 5500 <u>INTEGRITY APPLICATIONS INCORPORATED</u>	D Employer Identification Number (EIN) <u>54-1889710</u>	

Part I	Asset and Liability Statement
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1 Current value of plan assets and liabilities at the beginning and end of the plan year. Combine the value of plan assets held in more than one trust. Report the value of the plan's interest in a commingled fund containing the assets of more than one plan on a line-by-line basis unless the value is reportable on lines 1c(9) through 1c(14). Do not enter the value of that portion of an insurance contract which guarantees, during this plan year, to pay a specific dollar benefit at a future date. **Round off amounts to the nearest dollar.** MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 1b(1), 1b(2), 1c(8), 1g, 1h, and 1i. CCTs, PSAs, and 103-12 IEs also do not complete lines 1d and 1e. See instructions.

Assets		(a) Beginning of Year	(b) End of Year
a Total noninterest-bearing cash	1a	232603	917906
b Receivables (less allowance for doubtful accounts):			
(1) Employer contributions.....	1b(1)	0	177610
(2) Participant contributions	1b(2)		
(3) Other.....	1b(3)	11700	35100
c General investments:			
(1) Interest-bearing cash (include money market accounts & certificates of deposit).....	1c(1)		
(2) U.S. Government securities	1c(2)		
(3) Corporate debt instruments (other than employer securities):			
(A) Preferred	1c(3)(A)		
(B) All other.....	1c(3)(B)		
(4) Corporate stocks (other than employer securities):			
(A) Preferred	1c(4)(A)		
(B) Common.....	1c(4)(B)		
(5) Partnership/joint venture interests	1c(5)		
(6) Real estate (other than employer real property).....	1c(6)		
(7) Loans (other than to participants)	1c(7)		
(8) Participant loans.....	1c(8)		
(9) Value of interest in common/collective trusts	1c(9)		
(10) Value of interest in pooled separate accounts	1c(10)		
(11) Value of interest in master trust investment accounts	1c(11)		
(12) Value of interest in 103-12 investment entities.....	1c(12)		
(13) Value of interest in registered investment companies (e.g., mutual funds).....	1c(13)		
(14) Value of funds held in insurance company general account (unallocated contracts).....	1c(14)		
(15) Other	1c(15)		

1d Employer-related investments:

		(a) Beginning of Year	(b) End of Year
(1) Employer securities	1d(1)	453960	522405
(2) Employer real property	1d(2)		
e Buildings and other property used in plan operation	1e		
f Total assets (add all amounts in lines 1a through 1e)	1f	698263	1653021

Liabilities

g Benefit claims payable	1g		
h Operating payables	1h		
i Acquisition indebtedness	1i	630783	477511
j Other liabilities	1j		
k Total liabilities (add all amounts in lines 1g through 1j)	1k	630783	477511

Net Assets

l Net assets (subtract line 1k from line 1f)	1l	67480	1175510
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Part II Income and Expense Statement

2 Plan income, expenses, and changes in net assets for the year. Include all income and expenses of the plan, including any trust(s) or separately maintained fund(s) and any payments/receipts to/from insurance carriers. Round off amounts to the nearest dollar. MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 2a, 2b(1)(E), 2e, 2f, and 2g.

Income

		(a) Amount	(b) Total
a Contributions:			
(1) Received or receivable in cash from: (A) Employers	2a(1)(A)	912091	
(B) Participants	2a(1)(B)		
(C) Others (including rollovers)	2a(1)(C)		
(2) Noncash contributions	2a(2)		
(3) Total contributions. Add lines 2a(1)(A) , (B) , (C) , and line 2a(2)	2a(3)		912091
b Earnings on investments:			
(1) Interest:			
(A) Interest-bearing cash (including money market accounts and certificates of deposit)	2b(1)(A)		
(B) U.S. Government securities	2b(1)(B)		
(C) Corporate debt instruments	2b(1)(C)		
(D) Loans (other than to participants)	2b(1)(D)		
(E) Participant loans	2b(1)(E)		
(F) Other	2b(1)(F)		
(G) Total interest. Add lines 2b(1)(A) through (F)	2b(1)(G)		0
(2) Dividends: (A) Preferred stock	2b(2)(A)		
(B) Common stock	2b(2)(B)	139479	
(C) Registered investment company shares (e.g. mutual funds)	2b(2)(C)		
(D) Total dividends. Add lines 2b(2)(A) , (B) , and (C)	2b(2)(D)		139479
(3) Rents	2b(3)		
(4) Net gain (loss) on sale of assets: (A) Aggregate proceeds	2b(4)(A)		
(B) Aggregate carrying amount (see instructions)	2b(4)(B)		
(C) Subtract line 2b(4)(B) from line 2b(4)(A) and enter result	2b(4)(C)		0
(5) Unrealized appreciation (depreciation) of assets: (A) Real estate	2b(5)(A)		
(B) Other	2b(5)(B)	68445	
(C) Total unrealized appreciation of assets. Add lines 2b(5)(A) and (B)	2b(5)(C)		68445

		(a) Amount	(b) Total
(6) Net investment gain (loss) from common/collective trusts	2b(6)		
(7) Net investment gain (loss) from pooled separate accounts	2b(7)		
(8) Net investment gain (loss) from master trust investment accounts	2b(8)		
(9) Net investment gain (loss) from 103-12 investment entities	2b(9)		
(10) Net investment gain (loss) from registered investment companies (e.g., mutual funds).....	2b(10)		
c Other income.....	2c		
d Total income. Add all income amounts in column (b) and enter total.....	2d		1120015

Expenses

e Benefit payment and payments to provide benefits:			
(1) Directly to participants or beneficiaries, including direct rollovers	2e(1)		
(2) To insurance carriers for the provision of benefits	2e(2)		
(3) Other	2e(3)		
(4) Total benefit payments. Add lines 2e(1) through (3).....	2e(4)		0
f Corrective distributions (see instructions)	2f		
g Certain deemed distributions of participant loans (see instructions)	2g		
h Interest expense.....	2h		11985
i Administrative expenses: (1) Professional fees.....	2i(1)		
(2) Contract administrator fees.....	2i(2)		
(3) Investment advisory and management fees.....	2i(3)		
(4) Other	2i(4)		
(5) Total administrative expenses. Add lines 2i(1) through (4).....	2i(5)		0
j Total expenses. Add all expense amounts in column (b) and enter total	2j		11985

Net Income and Reconciliation

k Net income (loss). Subtract line 2j from line 2d	2k		1108030
l Transfers of assets:			
(1) To this plan.....	2l(1)		
(2) From this plan.....	2l(2)		

Part III Accountant's Opinion

3 Complete lines 3a through 3c if the opinion of an independent qualified public accountant is attached to this Form 5500. Complete line 3d if an opinion is not attached.

a The attached opinion of an independent qualified public accountant for this plan is (see instructions):

(1) ☒ Unqualified (2) ☐ Qualified (3) ☐ Disclaimer (4) ☐ Adverse

b Did the accountant perform a limited scope audit pursuant to 29 CFR 2520.103-8 and/or 103-12(d)?

☐ Yes ☒ No

c Enter the name and EIN of the accountant (or accounting firm) below:

(1) Name: PRICE & ASSOCIATES, LLC

(2) EIN: 46-2128596

d The opinion of an independent qualified public accountant is **not attached** because:

(1) ☐ This form is filed for a CCT, PSA, or MTIA. (2) ☐ It will be attached to the next Form 5500 pursuant to 29 CFR 2520.104-50.

Part IV Compliance Questions

4 CCTs and PSAs do not complete Part IV. MTIAs, 103-12 IEs, and GIAs do not complete lines 4a, 4e, 4f, 4g, 4h, 4k, 4m, 4n, or 5. 103-12 IEs also do not complete lines 4j and 4l. MTIAs also do not complete line 4l.

During the plan year:

a Was there a failure to transmit to the plan any participant contributions within the time period described in 29 CFR 2510.3-102? Continue to answer "Yes" for any prior year failures until fully corrected. (See instructions and DOL's Voluntary Fiduciary Correction Program.).....

b Were any loans by the plan or fixed income obligations due the plan in default as of the close of the plan year or classified during the year as uncollectible? Disregard participant loans secured by participant's account balance. (Attach Schedule G (Form 5500) Part I if "Yes" is checked.)

	Yes	No	Amount
4a		X	
4b		X	

		Yes	No	Amount
c Were any leases to which the plan was a party in default or classified during the year as uncollectible? (Attach Schedule G (Form 5500) Part II if "Yes" is checked.)	4c		X	
d Were there any nonexempt transactions with any party-in-interest? (Do not include transactions reported on line 4a. Attach Schedule G (Form 5500) Part III if "Yes" is checked.)	4d		X	
e Was this plan covered by a fidelity bond?	4e	X		5000000
f Did the plan have a loss, whether or not reimbursed by the plan's fidelity bond, that was caused by fraud or dishonesty?	4f		X	
g Did the plan hold any assets whose current value was neither readily determinable on an established market nor set by an independent third party appraiser?	4g		X	
h Did the plan receive any noncash contributions whose value was neither readily determinable on an established market nor set by an independent third party appraiser?	4h		X	
i Did the plan have assets held for investment? (Attach schedule(s) of assets if "Yes" is checked, and see instructions for format requirements.)	4i	X		
j Were any plan transactions or series of transactions in excess of 5% of the current value of plan assets? (Attach schedule of transactions if "Yes" is checked, and see instructions for format requirements.)	4j		X	
k Were all the plan assets either distributed to participants or beneficiaries, transferred to another plan, or brought under the control of the PBGC?	4k		X	
l Has the plan failed to provide any benefit when due under the plan?	4l		X	
m If this is an individual account plan, was there a blackout period? (See instructions and 29 CFR 2520.101-3.)	4m		X	
n If 4m was answered "Yes," check the "Yes" box if you either provided the required notice or one of the exceptions to providing the notice applied under 29 CFR 2520.101-3.	4n			
o Defined Benefit Plan or Money Purchase Pension Plan Only: Were any distributions made during the plan year to an employee who attained age 62 and had not separated from service?	4o			

5a Has a resolution to terminate the plan been adopted during the plan year or any prior plan year?
If "Yes," enter the amount of any plan assets that reverted to the employer this year. ☐ Yes ☒ No **Amount:**

5b If, during this plan year, any assets or liabilities were transferred from this plan to another plan(s), identify the plan(s) to which assets or liabilities were transferred. (See instructions.)

5b(1) Name of plan(s)	5b(2) EIN(s)	5b(3) PN(s)

5c If the plan is a defined benefit plan, is it covered under the PBGC insurance program (See ERISA section 4021.)? ☐ Yes ☐ No ☐ Not determined
If "Yes" is checked, enter the My PAA confirmation number from the PBGC premium filing for this plan year (See instructions.)

Part V Trust Information

6a Name of trust	6b Trust's EIN
6c Name of trustee or custodian	6d Trustee's or custodian's telephone number

SCHEDULE R (Form 5500) Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Retirement Plan Information This schedule is required to be filed under sections 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and section 6058(a) of the Internal Revenue Code (the Code). ▶ File as an attachment to Form 5500.	OMB No. 1210-0110 2016 This Form is Open to Public Inspection.
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For calendar plan year 2016 or fiscal plan year beginning 01/01/2016 and ending 12/31/2016

A Name of plan <u>INTEGRITY APPLICATIONS INCORPORATED EMPLOYEE STOCK OWNERSHIP PLAN</u>	B Three-digit plan number (PN) ▶ <u>002</u>
C Plan sponsor's name as shown on line 2a of Form 5500 <u>INTEGRITY APPLICATIONS INCORPORATED</u>	D Employer Identification Number (EIN) <u>54-1889710</u>

Part I	Distributions
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All references to distributions relate only to payments of benefits during the plan year.

1 Total value of distributions paid in property other than in cash or the forms of property specified in the instructions	1	<u>0</u>
2 Enter the EIN(s) of payor(s) who paid benefits on behalf of the plan to participants or beneficiaries during the year (if more than two, enter EINs of the two payors who paid the greatest dollar amounts of benefits): EIN(s): _____ Profit-sharing plans, ESOPs, and stock bonus plans, skip line 3.		
3 Number of participants (living or deceased) whose benefits were distributed in a single sum, during the plan year	3	

Part II	Funding Information (If the plan is not subject to the minimum funding requirements of section 412 of the Internal Revenue Code or ERISA section 302, skip this Part.)
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4 Is the plan administrator making an election under Code section 412(d)(2) or ERISA section 302(d)(2)?	☐ Yes	☐ No	☐ N/A
If the plan is a defined benefit plan, go to line 8.			
5 If a waiver of the minimum funding standard for a prior year is being amortized in this plan year, see instructions and enter the date of the ruling letter granting the waiver. Date: Month _____ Day _____ Year _____ If you completed line 5, complete lines 3, 9, and 10 of Schedule MB and do not complete the remainder of this schedule.			
6 a Enter the minimum required contribution for this plan year (include any prior year accumulated funding deficiency not waived)	6a		
b Enter the amount contributed by the employer to the plan for this plan year	6b		
c Subtract the amount in line 6b from the amount in line 6a. Enter the result (enter a minus sign to the left of a negative amount)	6c		
If you completed line 6c, skip lines 8 and 9.			
7 Will the minimum funding amount reported on line 6c be met by the funding deadline?	☐ Yes	☐ No	☐ N/A
8 If a change in actuarial cost method was made for this plan year pursuant to a revenue procedure or other authority providing automatic approval for the change or a class ruling letter, does the plan sponsor or plan administrator agree with the change?	☐ Yes	☐ No	☐ N/A

Part III	Amendments
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9 If this is a defined benefit pension plan, were any amendments adopted during this plan year that increased or decreased the value of benefits? If yes, check the appropriate box. If no, check the "No" box.....	☐ Increase	☐ Decrease	☐ Both	☐ No
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Part IV	ESOPs (see instructions). If this is not a plan described under Section 409(a) or 4975(e)(7) of the Internal Revenue Code, skip this Part.
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10 Were unallocated employer securities or proceeds from the sale of unallocated securities used to repay any exempt loan?	☐ Yes	☒ No
11 a Does the ESOP hold any preferred stock?	☐ Yes	☒ No
b If the ESOP has an outstanding exempt loan with the employer as lender, is such loan part of a "back-to-back" loan? (See instructions for definition of "back-to-back" loan.)	☐ Yes	☒ No
12 Does the ESOP hold any stock that is not readily tradable on an established securities market?	☒ Yes	☐ No

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Part V Additional Information for Multiemployer Defined Benefit Pension Plans

13 Enter the following information for each employer that contributed more than 5% of total contributions to the plan during the plan year (measured in dollars). See instructions. *Complete as many entries as needed to report all applicable employers.*

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

14	Enter the number of participants on whose behalf no contributions were made by an employer as an employer of the participant for:		
	a The current year	14a	
	b The plan year immediately preceding the current plan year	14b	
	c The second preceding plan year	14c	
15	Enter the ratio of the number of participants under the plan on whose behalf no employer had an obligation to make an employer contribution during the current plan year to:		
	a The corresponding number for the plan year immediately preceding the current plan year	15a	
	b The corresponding number for the second preceding plan year	15b	
16	Information with respect to any employers who withdrew from the plan during the preceding plan year:		
	a Enter the number of employers who withdrew during the preceding plan year	16a	
	b If line 16a is greater than 0, enter the aggregate amount of withdrawal liability assessed or estimated to be assessed against such withdrawn employers	16b	
17	If assets and liabilities from another plan have been transferred to or merged with this plan during the plan year, check box and see instructions regarding supplemental information to be included as an attachment. ☐		

Part VI	Additional Information for Single-Employer and Multiemployer Defined Benefit Pension Plans
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18	If any liabilities to participants or their beneficiaries under the plan as of the end of the plan year consist (in whole or in part) of liabilities to such participants and beneficiaries under two or more pension plans as of immediately before such plan year, check box and see instructions regarding supplemental information to be included as an attachment
19	If the total number of participants is 1,000 or more, complete lines (a) through (c) a Enter the percentage of plan assets held as: Stock: _____% Investment-Grade Debt: _____% High-Yield Debt: _____% Real Estate: _____% Other: _____% b Provide the average duration of the combined investment-grade and high-yield debt: ☐ 0-3 years ☐ 3-6 years ☐ 6-9 years ☐ 9-12 years ☐ 12-15 years ☐ 15-18 years ☐ 18-21 years ☐ 21 years or more c What duration measure was used to calculate line 19(b)? ☐ Effective duration ☐ Macaulay duration ☐ Modified duration ☐ Other (specify): _____

Part VII	IRS Compliance Questions
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20a Is the plan a 401(k) plan? If "No," skip b	☐ Yes ☐ No
20b How did the plan satisfy the nondiscrimination requirements for employee deferrals under section 401(k)(3) for the plan year? Check all that apply:	☐ Design-based safe harbor ☐ "Prior year" ADP test ☐ "Current year" ADP test ☐ N/A
21a What testing method was used to satisfy the coverage requirements under section 410(b) for the plan year? Check all that apply:	☐ Ratio percentage test ☐ Average benefit test ☐ N/A
21b Did the plan satisfy the coverage and nondiscrimination requirements of sections 410(b) and 401(a)(4) for the plan year by combining this plan with any other plan under the permissive aggregation rules?	☐ Yes ☐ No
22a If the plan is a master and prototype plan (M&P) or volume submitter plan that received a favorable IRS opinion letter or advisory letter, enter the date of the letter / / and the serial number .	
22b If the plan is an individually-designed plan that received a favorable determination letter from the IRS, enter the date of the most recent determination letter / / .	

**INTEGRITY APPLICATIONS
INCORPORATED EMPLOYEE STOCK
OWNERSHIP PLAN**

FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULE

*As of December 31, 2016 and 2015, and the year ended
December 31, 2016*

And Independent Auditor's Report

INTEGRITY APPLICATIONS INCORPORATED EMPLOYEE STOCK OWNERSHIP PLAN
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Note: All other schedules required by section 2520.103-10 of the Department of Labor’s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 have been omitted because they are not applicable.



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Independent Auditor's Report

To the Plan Administrator and Trustee of the
Integrity Applications Incorporated Employee Stock Ownership Plan

We have audited the accompanying financial statements of Integrity Applications Incorporated Employee Stock Ownership Plan (the Plan), which comprise the statements of net assets available for benefits as of December 31, 2016 and 2015, and the related statement of changes in net assets available for benefits for the year ended December 31, 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of Integrity Applications Incorporated Employee Stock Ownership Plan as of December 31, 2016 and 2015, and the changes in net assets available for benefits for the year ended December 31, 2016, in accordance with accounting principles generally accepted in the United States of America.

Report on Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule of assets (held at end of year) as of December 31, 2016, referred to as "supplemental information," is presented for the purpose of additional analysis and is not a required part of the financial statements but is supplemental information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. Such information is the responsibility of the Plan's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including

comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

PRICE & ASSOCIATES, LLC

Chantilly, Virginia
September 13, 2017

INTEGRITY APPLICATIONS INCORPORATED EMPLOYEE STOCK OWNERSHIP PLAN
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

DECEMBER 31, 2016 AND 2015

	DECEMBER 31, 2016			DECEMBER 31, 2015		
	Allocated	Unallocated	Total	Allocated	Unallocated	Total
Assets						
Investment in Plan Sponsor common stock, at fair value	\$ 208,962	\$ 313,443	\$ 522,405	\$ 90,792	\$ 363,168	\$ 453,960
Cash, non-interest bearing	917,906	-	917,906	232,603	-	232,603
Receivables						
Contribution receivable-Employer	177,610	-	177,610	-	-	-
Dividends receivable	35,100	-	35,100	11,700	-	11,700
Total Assets	1,339,578	313,443	1,653,021	335,095	363,168	698,263
Liabilities						
Note payable	-	477,511	477,511	-	630,783	630,783
Total Liabilities	-	477,511	477,511	-	630,783	630,783
Net Assets Available for Benefits	\$ 1,339,578	\$ (164,068)	\$ 1,175,510	\$ 335,095	\$ (267,615)	\$ 67,480

The accompanying notes are an integral part of the financial statements.

INTEGRITY APPLICATIONS INCORPORATED EMPLOYEE STOCK OWNERSHIP PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

YEAR ENDED DECEMBER 31, 2016

	<u>Allocated</u>	<u>Unallocated</u>	<u>Total</u>
Additions			
Investment income			
Net appreciation in fair value of investments	\$ 13,689	\$ 54,756	\$ 68,445
Interest and dividends	139,479	-	139,479
	<u>153,168</u>	<u>54,756</u>	<u>207,924</u>
Contributions			
Employer	<u>746,834</u>	<u>165,257</u>	<u>912,091</u>
Allocation of 11,700 shares of Plan Sponsor common stock, at estimated fair value	<u>104,481</u>	<u>-</u>	<u>104,481</u>
Total Additions	<u>1,004,483</u>	<u>220,013</u>	<u>1,224,496</u>
Deductions			
Interest expense	-	11,985	11,985
Allocation of 11,700 shares of Plan Sponsor common stock, at estimated fair value	<u>-</u>	<u>104,481</u>	<u>104,481</u>
Total Deductions	<u>-</u>	<u>116,466</u>	<u>116,466</u>
Net Change	1,004,483	103,547	1,108,030
Net Assets Available for Benefits			
Beginning of period	<u>335,095</u>	<u>(267,615)</u>	<u>67,480</u>
End of year	<u>\$ 1,339,578</u>	<u>\$ (164,068)</u>	<u>\$ 1,175,510</u>

The accompanying notes are an integral part of the financial statements.

INTEGRITY APPLICATIONS INCORPORATED EMPLOYEE STOCK OWNERSHIP PLAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 1—Description of Plan

The following description of the Integrity Applications Incorporated Employee Stock Ownership Plan (the Plan) provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

General – Integrity Applications Incorporated (the Company or Plan Sponsor) established the Plan effective as of January 1, 2015. The Plan is designed to comply with Section 4975(e)(7) and the regulations thereunder of the Internal Revenue Code (IRC) of 1986, as amended, and is subject to the applicable provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended. Employees of Integrity Technology Solutions LLC (ITS) and Pacific Defense Solutions, LLC (PDS) can participate in the Plan after meeting the eligibility requirements. Both ITS and PDS are wholly owned subsidiaries of the Plan Sponsor.

The Plan is administered by the Company and a Trustee comprised of an individual appointed by the Company's Board of Directors.

Certain administrative functions are performed by officers or employees of the Company. No such officer or employee receives compensation from the Plan. Reasonable expenses incurred by the Trustee in the performance of his duties, and all other proper administrative costs of the Plan, shall be charged to and paid out of the Plan's assets. However, the Company may pay all or any portion of such expenses. The Trustee shall be entitled to such reasonable compensation for his services as may be agreed upon in writing from time to time between the Company and the Trustee. However, the Trustee shall not be entitled to compensation from the Plan's assets for services as Trustee.

The Plan purchased Company common stock using the proceeds of a bank borrowing guaranteed by the Company, and holds the common stock in a trust established under the Plan. The borrowing is to be repaid to the Company over a period of approximately four and a half years by fully deductible Company contributions to the trust fund. As the Plan makes each payment of principal and interest, an appropriate percentage of stock will be allocated to eligible employees' accounts in accordance with applicable regulations under the IRC. Shares vest fully upon allocation. The Company repaid the bank loan during 2016.

The borrowing is collateralized by the unallocated shares of common stock. The lender has no rights against shares of common stock once they are allocated under the provisions of the ESOP. Accordingly, the financial statements of the Plan as of December 31, 2016 and 2015, and for the and for the year ended December 31, 2016, present separately the assets and liabilities and changes therein pertaining to:

- 1) the accounts of employees with vested rights in allocated common stock (Allocated) and
- 2) common stock not yet allocated to employees (Unallocated).

Eligibility – Employees of the Company, ITS and PDS, other than employees covered by a collective bargaining agreement under which the employee is not eligible to participate in the Plan and nonresident aliens who receive no earned income from the Company, employed on June 30, 2015 became participants in the Plan on that date. Thereafter, each eligible employee shall become a participant as of the first June 30 or December 31 coinciding with or next following the date on which he/she has completed twelve consecutive months of credited service, as defined in the Plan document.

Participants who are not employed on the allocation date, which is December 31 of each year, are not eligible for an allocation of Company contributions or forfeitures for such year.

Participant Contributions – Participants may not make contributions to the Plan.

INTEGRITY APPLICATIONS INCORPORATED EMPLOYEE STOCK OWNERSHIP PLAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Company Contributions – The Company is obligated to make contributions in cash to the Plan which, when aggregated with the Plan's dividends and interest earnings, equal the amount necessary to enable the Plan to make its regularly scheduled payments of principal and interest due on its term loan. The Company may contribute cash or common stock of the Company to the Plan as well. The Company may choose not to make a contribution to the Plan for a particular year after the ESOP loan is repaid.

Participants' Accounts – The Plan is a defined contribution plan under which a separate individual account is established for each participant. Each participant's account is credited as of the last day of each plan year with an allocation of shares of the Company's common stock released by the Trustee from the unallocated account and forfeitures of terminated participants' non vested accounts. Only those participants who are eligible employees of the Company as of the last day of the plan year will receive an allocation. Allocations are based on a participant's eligible compensation, relative to total eligible compensation. Plan earnings are allocated to each participant's account based on the ratio of the participant's beginning of the year account balance to all participants' beginning of the year account balances.

Vesting – No matter how long a participant worked for the Company, he/she will become 100% vested in his/her account if he/she reaches the Plan's retirement age while employed by the Company (regardless of whether or not he/she retires then), if he/she terminates employment with the Company due to death or disability, or if he/she dies while performing USERRA-qualified active military service. If a participant's employment with the Company ends for any reason other than retirement, permanent disability or death, he or she will vest in the balances in his or her account based on total years of service with the Company as follows:

<u>Years of Credited Service Under the Plan</u>	<u>Percent of Account Vested</u>
Less than Two Years	0%
Two Years	20%
Three Years	40%
Four Years	60%
Five Years	80%
Six Years or More	100%

Forfeitures – Company contributions and Plan forfeitures are allocated to each participant's account based upon the relation of the participant's compensation, as defined in the Plan, to total compensation for the Plan year. Forfeited account amounts are allocated on the last day of the plan year in which a participant has a five-consecutive year break in service. A participant who is not vested in any part of his accounts shall be deemed to have received a complete distribution of his account on the date his service terminates. Cash forfeitures allocated to participants on December 31, 2016 totaled \$3,296. Additionally, forfeitures of 157.8687 shares of Company stock were allocated to participants on December 31, 2016.

Voting Rights – The Trustee usually decides how shares of Company stock held by the Plan will be voted. In certain important corporate matters presented to Company shareholders for a vote, however, such as any corporate merger or consolidation, recapitalization, reclassification, liquidation, dissolution, or sale of substantially all assets of a trade or business, participants will have the right to decide how shares of Company stock allocated to them will be voted. The Trustee is required, however, to vote any unallocated shares on behalf of the collective best interest of Plan participants and beneficiaries.

Payment of Benefits – Distributions on account of death, disability, or retirement are made in a lump sum in the Plan year following the event. Distributions for other separations from service will be offered to the participant beginning in the sixth Plan year following the separation from service and are made in a lump sum, in annual installments over a period of five or fewer years, or in a combination of these methods. Distributions are made in cash.

INTEGRITY APPLICATIONS INCORPORATED EMPLOYEE STOCK OWNERSHIP PLAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Put Option – Under Federal income tax regulations, the employer stock that is held by the Plan and its participants and is not readily tradable on an established market, or is subject to trading limitations, includes a put option. The put option is a right to demand that the Company buy any shares of its stock distributed to participants for which there is no market. The put price is representative of the current value of the stock. The Company can pay for the purchase with interest over a period of five years. The purpose of the put option is to ensure that the participant has the ability to ultimately obtain cash.

Diversification – Diversification is offered to participants close to retirement so that they may have the opportunity to move part of the value of their investment in Company common stock into investments which are more diversified. Participants who are at least age 55 with at least 10 years of credited service in the Plan may elect to diversify a portion of their account. Diversification is offered to each eligible participant over a six-year period. In each of the first five years, a participant may diversify up to 25% of the number of post-1986 shares allocated to his or her account, less any shares previously diversified. In the sixth year, the percentage changes to 50%. Participants who elect to diversify receive a cash distribution.

Plan Termination – The Company reserves the right to terminate the Plan at any time, subject to Plan provisions. Upon such termination of the Plan, the interest of each participant in the trust fund will be distributed to such participant or his or her beneficiary at the time prescribed by the Plan terms and the IRC. Upon termination of the Plan, the Employee Benefits Administration Committee should direct the Trustee to pay all liabilities and expenses of the trust fund and to sell shares of financed common stock held in the loan suspense account to the extent it determines such sale to be necessary in order to repay the loan.

Note 2—Summary of significant accounting policies

Basis of Accounting – The financial statements of the Plan are prepared under the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Cash and Cash Equivalents – The Plan considers cash on hand, cash deposited in banks, money market funds and investments with original maturities of three months or less to be cash equivalents. The Plan places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) covers \$250,000 for substantially all depository accounts. The Plan from time to time may have amounts on deposit in excess of the insured limits.

Income Recognition and Investment Valuation – Purchases and sales of securities are recorded on a trade-date basis. Realized gains and losses from security transactions are reported on the average cost method. Net appreciation/depreciation includes the Plan's gains and losses on investments bought and sold as well as held during the year. Dividends are recorded on the ex-dividend date. Interest income is recorded on the accrual basis.

The shares of Company common stock are valued at fair value. See Note 3 for discussion of fair value measurements.

Payments of Benefits – Benefits are recorded when paid.

Administrative Expenses – All administrative expenses of maintaining the Plan are paid by the Company.

Risks and Uncertainties – The Plan's principal investment is common stock of the Company. This investment is exposed to various risks such as interest rate, market, valuation assumptions based on earnings and cash flows, and the success of the Company. Due to the level of risk associated with this investment, including uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in the value of the common stock will occur in the near term and that such changes could materially

INTEGRITY APPLICATIONS INCORPORATED EMPLOYEE STOCK OWNERSHIP PLAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

affect the amounts reported in the statements of net assets available for benefits and statement of changes in net assets available for benefits.

Estimates – The preparation of financial statements in conformity with GAAP requires the Plan administrator to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions to net assets and deductions from net assets during the reporting period. Actual results could differ from those estimates

New Accounting Standards — In July 2015, the FASB issued Accounting Standards Update (ASU) 2015-12, *Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): (Part I) Fully Benefit-Responsive Investment Contracts; (Part II) Plan Investment Disclosures; and (Part III) Measurement Date Practical Expedient*. Part I eliminates the requirement to measure the fair value of fully benefit-responsive investment contracts and designates contract value as the only required measure. Part II eliminates the requirements to disclose individual investments that represent 5 percent or more of net assets available for benefits and the net appreciation or depreciation in fair value of investments by general type. Part II also simplifies the level of disaggregation of investments that are measured using fair value. Plans will continue to disaggregate investments that are measured using fair value by general type; however, plans are no longer required to also disaggregate investments by nature, characteristics and risks. Further, the disclosure of information about fair value measurements shall be provided by general type of plan asset. Part III provides a practical expedient to permit plans to measure investments and investment-related accounts as of the month-end date that is closest to the plan's fiscal year-end, when the fiscal period does not coincide with month-end. Parts I and III are not applicable to the Plan. ASU 2015-12 is effective for the Plan for fiscal years beginning after December 15, 2015, with early adoption permitted and retrospective application required for Part I and Part II. Plan management adopted Part II of ASU 2015-12 as of December 31, 2016, with retrospective application.

In May 2015, FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. This guidance eliminates the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient (NAV). ASU 2015-07 also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV, and is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. ASU 2015-07 requires retrospective application by removing investments measured using NAV from the fair value hierarchy in all periods presented. Plan management adopted ASU 2015-12 as of December 31, 2016. The adoption of this ASU did not impact the Plan.

Note 3—Fair value measurements

The Plan's investments are reported at fair value in the accompanying statements of net assets available for benefits. The fair value measurements accounting literature 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) and the lowest priority to unobservable inputs (level 3). This hierarchy consists of three broad levels:

- 1) Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets or liabilities that the Plan has the ability to access,
- 2) Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and
- 3) Level 3 inputs are unobservable and significant to the fair value measurement and have the lowest priority.

INTEGRITY APPLICATIONS INCORPORATED EMPLOYEE STOCK OWNERSHIP PLAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Plan uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. Level 3 inputs were used only when Level 1 or Level 2 inputs were not available.

The following table presents fair value measurement information for the Plan's investment in Company common stock. The carrying values of receivables and cash included in the accompanying statements of net assets available for benefits approximated fair value at December 31, 2016 and 2015, and are thus not included in the following table.

	December 31, 2016		December 31, 2015	
	Significant Unobservable Inputs (Level 3)	Total Fair Value	Significant Unobservable Inputs (Level 3)	Total Fair Value
Plan Sponsor company common stock	\$ 522,405	\$ 522,405	\$ 453,960	\$ 453,960

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 investment assets for the year ended December 31, 2016:

	Balance, beginning of period	Unrealized gains (losses) related to investments	Purchases, sales, issuances and settlements, (net)	Balance at end of year
Investment in Plan Sponsor company common stock	\$ 453,960	\$ 68,445	\$ -	\$ 522,405

The Plan's policy is to recognize transfers into and out of Level 3 as of the date of the event or change in circumstances that caused the transfer. For the year ended December 31, 2016, there were no transfers into or out of Level 3.

Level 3 Fair Value Measurements

The fair value of the Company's stock held by the Plan was determined by an independent valuation. The appraiser considered three different commonly accepted valuation methods (the value of selected publicly traded guideline companies; the value determined by discounting future cash flows; and the value of capitalized cash flow) and then used the discounted cash flows to determine the fair values of \$8.93 and \$7.76 per share as of December 31, 2016 and 2015, respectively. The appraiser took into account historical and projected cash flows and net liabilities. The value was determined on a non-controlling, non-marketable basis since the stock is not publicly traded. Company common stock is classified within Level 3 of the valuation hierarchy. There have been no changes in the methodologies used at December 31, 2016 and 2015.

The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are

INTEGRITY APPLICATIONS INCORPORATED EMPLOYEE STOCK OWNERSHIP PLAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

appropriate and consistent with other market participants, the use of different methodologies or assumptions to measure the fair value of certain financial instruments could result in a different fair value at the reporting date.

Note 4—Investments

The Plan's investment in Company common stock at December 31, 2016 and 2015 is as follows:

	December 31, 2016		December 31, 2015	
	Allocated	Unallocated	Allocated	Unallocated
Number of shares	23,400	35,100	11,700	46,800
Cost	\$ 315,900	\$ 473,850	\$ 157,950	\$ 631,800
Fair Value	\$ 208,962	\$ 313,443	\$ 90,792	\$ 363,168

Note 5—Note payable

In July 2015, the Plan entered into a \$789,750 term loan agreement with the Company. The proceeds of the loan were used to purchase 58,500 shares of Company common stock from several shareholders. Unallocated shares are collateral for the loan. Shares are released from collateral and allocated to participants when principal and interest payments are made. The number of shares released in any year is the number of shares held as collateral, multiplied by the ratio of the current year payment of principal and interest, divided by the total of this year's payment, plus all future years' principal and interest payments. This resulted in 11,700 shares being released and allocated for the plan year ended December 31, 2016. The agreement provides for the loan to be repaid over approximately four and a half years, with the first payment due December 31, 2015 and remaining payments due annually thereafter until December 31, 2019. Payments are due in installments of \$165,257, including principal and interest at 1.90% per annum.

At December 31, 2016, principal payments due under the note payable are as follows:

Year Ending December 31,

2017	\$ 156,184
2018	159,152
2019	<u>162,175</u>
	<u>\$ 477,511</u>

Note 6—Tax status

The Plan has received a determination letter from the Internal Revenue Service (IRS) dated February 24, 2017 stating that the Plan and related trust are qualified under the appropriate sections of the IRC. The Plan has been amended since receiving the determination letter. However, the Plan administrator and the Plan's tax counsel believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the IRC. Therefore, they believe that the Plan is qualified and the related trust is exempt from taxation.

GAAP requires Plan management to evaluate the tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Plan Management has analyzed the tax positions taken by the Plan, and has concluded that as of December 31, 2016, there are no uncertain positions taken or expected to be taken that

INTEGRITY APPLICATIONS INCORPORATED EMPLOYEE STOCK OWNERSHIP PLAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

would require recognition of a liability (or asset) or require disclosure in the financial statements. The Plan is subject to audit by taxing jurisdictions.

Note 7—Administration of plan assets

The Plan's assets, which consist principally of Company common stock, are held by the Trustee of the Plan.

Company contributions are held and managed by the Trustee, which invests cash received, interest, and dividend income and makes distributions to participants. The Trustee also administers the payment of interest and principal on the loan, which is reimbursed to the Trustee through contributions as determined by the Company.

Note 8—Related party and Party-in Interest transactions

The Plan invests in Company common stock. This is a related party and party-in-interest transaction. The Plan has a number of service providers. Such parties are parties-in-interest under ERISA.

Note 9—Subsequent events

The Plan has evaluated events through September 13, 2017 in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.

INTEGRITY APPLICATIONS INCORPORATED EMPLOYEE STOCK OWNERSHIP PLAN
FORM 5500, SCHEDULE H, PART IV, LINE 4i
SCHEDULE OF ASSETS (HELD AT END OF YEAR)
EIN: 54-1889710, PLAN NUMBER: 002

DECEMBER 31, 2016

(a)	(b) Identity of issuer, borrower, lessor or similar party	(c) Description of investment	(d) Cost	(e) Current Value
*	Integrity Applications Incorporated	58,500 shares of Common Stock	\$ 789,750	\$ 522,405

* Identified as party-in-interest.

Schedule H, line 4i – Schedule of Assets (Held At End of Year)

Plan Name: Integrity Applications Incorporated Employee Stock Ownership Plan
Employer I.D. #: 54-1889710
Plan Number: 002

(a)	(b) Identity of issue, borrower, lessor, or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(d) Cost	(e) Current Value
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Schedule of Assets (Held At End of Year) is contained in the attached audit report.