ACQUIRED SALES CORP
Form 10-Q
May 17, 2013

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FORM 10-Q
U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the quarterly period ended March 31, 2013

OR

o 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 000-52102

Acquired Sales Corp.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Nevada | 87-40479286 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

31 N. Suffolk Lane, Lake Forest, Illinois 60045
(Address of principal executive offices)

(847) 915-2446
(Registrant's telephone number, including area code)

n/a
(Former name, former address and former fiscal year, if changed since last report)

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

i

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

| | | | |
|---|---|---|---|
| Large Accelerated Filer [ ] | Accelerated Filer [ ] | Non-Accelerated Filer [ ]<br>(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]

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer’s classes of common units, as of the latest practicable date: 2,963,896 shares of common stock, par value $.001 per share, outstanding as of May 14, 2013.

Transitional Small Business Disclosure Format (Check one): Yes [ ] No [x]

ACQUIRED SALES CORP.

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Item 1. Financial Statements

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and in accordance with the instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, the financial statements contain all material adjustments, consisting only of normal recurring adjustments necessary to present fairly the financial condition, results of operations, and cash flows of the Company for the interim periods presented.

The results for the period ended March 31, 2013 are not necessarily indicative of the results of operations for the full year. These financial statements and related footnotes should be read in conjunction with the financial statements and footnotes thereto included in the Company’s Form 10-K filed with the Securities and Exchange Commission for the period ended December 31, 2012.

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ACQUIRED SALES CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2013 and 2012

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INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the Shareholders
Acquired Sales Corp.

We have reviewed the accompanying condensed consolidated balance sheets of Acquired Sales Corp. as of March 31, 2013, and the related statements of operations, shareholders' deficit, and cash flows for the three-month periods ended March 31, 2013 and 2012. These interim condensed financial information statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim condensed financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

/s/ HANSEN, BARNETT & MAXWELL, P.C.
Salt Lake City, Utah
May 16, 2013

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ACQUIRED SALES CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | $502,174 | $186,914 |
| Restricted cash | 300,000 | - |
| Accounts receivable | 23,250 | 292,171 |
| Receivables from employees | 938 | 609 |
| Prepaid expenses | - | 14,301 |
| Total Current Assets | 826,362 | 493,995 |
| Intangible Assets | 263,167 | 338,358 |
| Deposits | 4,900 | 4,900 |
| Property and Equipment | 4,735 | - |
| Property and Equipment Held-For-Sale | - | 25,438 |
| Total Assets | $1,099,164 | $862,691 |
| LIABILITIES AND SHAREHOLDERS' DEFICIT | | |
| Current Liabilities | | |
| Trade accounts payable | $136,692 | $346,153 |
| Accrued liabilities | - | 124,078 |
| Billings in excess of costs on uncompleted contracts | 152,449 | 376,650 |
| Accrued compensation | 105,547 | 880,723 |
| Notes payable, current portion | - | 130,070 |
| Notes payable - related parties, current portion | - | 1,489,275 |
| Total Current Liabilities | 394,688 | 3,346,949 |
| Long-Term Liabilities | | |
| Notes payable, net of $39,520 unamortized net discount and current portion | - | 480,480 |
| Notes payable - related parties, net of $30,399 unamortized net discount and current portion | - | 344,601 |
| Total Long-Term Liabilities | - | 825,081 |
| Shareholders' Equity (Deficit) | | |
| Preferred stock, $0.001 par value; 10,000,000 shares authorized; none outstanding | - | - |
| Common stock, $0.001 par value; 100,000,000 shares authorized; 2,963,896 and 2,877,896 shares outstanding, respectively | 2,964 | 2,878 |
| Additional paid-in capital | 8,459,602 | 8,187,846 |
| Accumulated deficit | (7,758,090) | (11,500,063) |
| Total Shareholders' Equity (Deficit) | 704,476 | (3,309,339) |
| Total Liabilities and Shareholders' Equity (Deficit) | $1,099,164 | $862,691 |

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ACQUIRED SALES CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | For the Three Month Ended March 31, 2013 | 2012 |
|---|---|---|
| Revenue | $- | $48,500 |
| Cost of Services | - | 9,380 |
| Gross Profit | - | 39,120 |
| Selling, General and Administrative Expense | 74,390 | 513,956 |
| Amortization of Intangible Assets | 75,190 | 37,595 |
| Operating Expenses | 149,580 | 551,551 |
| Loss from Operations | (149,580) | (512,431) |
| Loss from Extinguishment of Debt | 79,463 | - |
| Interest Expense | 4,719 | 15,063 |
| Loss from Continuing Operations | (233,762) | (527,494) |
| Gain on Disposal of Discontinued Operations | 3,731,389 | - |
| Income from Discontinued Operations | 244,346 | 2,563 |
| Net Income (Loss) | $3,741,973 | $(524,931) |
| Basic Earnings (Loss) per Share | | |
| Continuing Operations | $(0.08) | $(0.20) |
| Discontinued Operations | 1.35 | - |
| Basic Earnings (Loss) per Share | $1.27 | $(0.20) |
| | | |
| Diluted Earnings (Loss) per Share | | |
| Continuing Operations | $(0.06) | $(0.20) |
| Discontinued Operations | 0.94 | - |
| Diluted Earnings (Loss) per Share | $0.88 | $(0.20) |

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ACQUIRED SALES CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (DEFICIT)
FOR THE THREE MONTHS ENDED MARCH 31, 2012 and 2013
(UNAUDITED)

| | Common Stock | | Additional Paid-in | Accumulated | Total Shareholders' Equity |
|---|---|---|---|---|---|
| | Shares | Amount | Capital | Deficit | (Deficit) |
| Balance, December 31, 2011 | 2,602,896 | $2,603 | $6,236,634 | $(9,136,037) | $ (2,896,800) |
| Services contributed by shareholder, no additional shares issued | - | - | 62,500 | - | 62,500 |
| Issuance of warrants to purchase common stock | - | - | 141,973 | - | 141,973 |
| Share-based compensation | - | - | 449,905 | - | 449,905 |
| Acquisition of the Defense & Security Technology Group, Inc. net assets | 100,000 | 100 | 679,202 | - | 679,302 |
| Net loss | - | - | - | (524,931) | (524,931) |
| Balance, March 31, 2012 | 2,702,896 | 2,703 | 7,570,214 | (9,660,968) | (2,088,051) |
| | | | | | |
| Balance, December 31, 2012 | 2,877,896 | $2,878 | $8,187,846 | $(11,500,063) | $ (3,309,339) |
| Stock issued in debt extinguishment | 86,000 | 86 | 271,756 | - | 271,842 |
| Net income | - | - | - | 3,741,973 | 3,741,973 |
| Balance, March 31, 2013 | 2,963,896 | $2,964 | $8,459,602 | $(7,758,090) | $ 704,476 |

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ACQUIRED SALES CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | For the Three Month Ended March 31, 2013 | For the Three Month Ended March 31, 2012 |
|---|---|---|
| Cash Flows from Operating Activities | | |
| Net Income (loss ) | $3,741,973 | $(524,931 ) |
| Income/gain from discontinued operations | (3,975,735) | (2,563 ) |
| Adjustments to reconcile income (loss) to net cash provided by (used in) operating activities: | | |
| Services contributed by shareholder, no additional shares issued | - | 62,500 |
| Share-based compensation | - | 449,905 |
| Amortization of discount | - | 149,986 |
| Amortization of intangible assets | 75,190 | 37,595 |
| Acquisition related compensation | - | 32,649 |
| Depreciation | - | 150 |
| Loss from extinguishment of debt | 79,463 | - |
| Changes in operating assets and liabilities: | | |
| Accounts payable | (14,469 ) | (2,120 ) |
| Accrued liabilities | (1,297 ) | - |
| Billings in excess of costs on uncompleted contracts | (40,216 ) | - |
| Accrued compensation | 1,981 | 24,383 |
| Net cash provided by (used in) operating activities of continuing operations | (133,110 ) | 227,554 |
| Net cash used in operating activities of discontinued operations | (969,919 ) | (730,974 ) |
| Net cash used in operating activities | (1,103,029) | (503,420 ) |
| Cash Flows from Investing Activities | | |
| Proceeds from sale of discontinued operations | 3,975,000 | - |
| Restricted cash | (300,000 ) | - |
| Purchase of property and equipment | (4,736 ) | - |
| Advances to employees | (129 ) | - |
| Cash acquired with purchase of Defense & Security Technology Group, Inc. | - | 23,611 |
| Net cash provided by investing activities of continuing operations | 3,670,135 | 23,611 |
| Net cash used in investing activities of discontinued operations | - | (2,591 ) |
| Net cash provided by investing activities | 3,670,135 | 21,020 |
| Cash Flow from Financing Activities | | |
| Payments on notes payable | (650,070 ) | - |
| Payments on notes payable - related parties | (1,601,776) | - |
| Proceeds from borrowing under notes payable to related parties and issuance of warrants | - | 460,000 |
| Net cash provided by (used in) financing activities | $(2,251,846) | $460,000 |
| Net Increase (Decrease) in Cash | $315,260 | $(22,400 ) |
| Cash and Cash Equivalents at Beginning of Period | 186,914 | 65,684 |
| Cash and Cash Equivalents at End of Period | $502,174 | $43,284 |

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ACQUIRED SALES CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(UNAUDITED)

| | For the Three Month Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| Supplemental Cash Flow Information | | |
| Cash paid for interest | $3,683 | $7,049 |
| Cash paid for income taxes | $- | $800 |
| | | |
| Supplemental Disclosure of Noncash Investing and Financing Activities | | |
| | | |
| Repayment of note payable to related party with stock | $262,586 | $- |
| | | |
| Acquisition of Defense & Security Technology Group, Inc.: | | |
| Fair Value of Assets acquired | $- | $794,503 |
| Liabilities assumed | - | (147,850 ) |
| Compensation recognized | - | 32,649 |
| Fair value of common stock issued and stock options granted | $- | $679,302 |

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ACQUIRED SALES CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES Basis of Presentation – On November 4, 2010, Acquired Sales Corp. ("Acquired Sales") entered into an agreement with Cogility Software Corporation ("Cogility") that was closed on September 29, 2011, whereby Cogility was merged with and into a newly-formed subsidiary of Acquired Sales. To effect the merger, Cogility shareholders owning 100% of the 11,530,493 Cogility common shares outstanding received 2,175,564 Acquired Sales common shares, or one Acquired Sales common share for each 5.3 Cogility common shares outstanding. Acquired Sales reverse split its common shares outstanding on a 1-for-20 basis, which results in the 5,832,482 Acquired Sales pre-split common shares outstanding before the merger becoming 291,760 common shares. In addition, Cogility had stock options outstanding that would have permitted the holders thereof to purchase 5,724,666 Cogility common shares at prices ranging from $0.001 to $1.40 per share. In the merger transaction, the Cogility option holders exchanged these stock options for 1,080,126 Acquired Sales stock options exercisable at prices ranging from $0.001 to $5.00 per share.

The Cogility shareholders received 88.2% of the common shares outstanding after the merger and the shareholders and management of Cogility gained ownership and operating control of the combined company after the merger. Accordingly, Cogility was considered the accounting acquirer under current accounting guidance and the merger was recognized as a recapitalization of Cogility. The results of operations prior to the merger are those of Cogility, restated on a retroactive basis for all periods presented for the effects of the 5.3-for-1 reverse stock split. The exchange of the stock options was considered to be part of the recapitalization of Cogility and was not a modification of the Cogility stock options.

On February 13, 2012, Acquired Sales purchased 100% of the equity interests of Defense & Security Technology Group, Inc. ("DSTG"). The results of DSTG's operations have been included in the consolidated financial statements since that date.

On January 12, 2013, Acquired Sales entered into an agreement with Drumright Group, LLC ("Drumright") that was closed on February 11, 2013, wherein Acquired Sales sold 100% of the capital stock of Cogility to Drumright in exchange for $3,975,000 in cash and a $3,000,000 receivable. Under the terms of the agreement, Acquired Sales was required to transfer Cogility to Drumright without any liabilities. To accomplish this requirement, the $3,975,000 down payment was placed into an escrow account and to the extent necessary was used to pay Cogility's liabilities remaining at the closing date including liabilities that were secured by Cogility's assets or its capital stock. Acquired Sales was entitled to all accounts receivable earned prior to January 31, 2013. The historical results of Cogility's operations have been reclassified to discontinued operations.

The Company agreed to indemnify Drumright for losses caused by breaches of the Company's representations and warranties. In March 2013, Drumright notified the Company of the existence of a second amendment to a license agreement between Cogility and one of its customers that was effective April 2007. Despite the fact that Acquired Sales' management was not aware of the existence of the second amendment until Drumright's notification in March 2013, in the event that Drumright determines that such second amendment to the license agreement will result in losses to Drumright, Drumright could make a claim for indemnification against the Company or otherwise could file a lawsuit against Acquired Sales. The Company estimates that the range of potential loss from this claim is up to $3,200,000 and will affect the amount of gain the Company will recognize from the sale of Cogility. In addition, the Company believes the collection of the accounts receivable earned prior to January 31, 2013 is also at risk and will reduce the amount of gain the Company will recognize from the sale of Cogility by the amount of those receivables.

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ACQUIRED SALES CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Condensed Financial Statements – The accompanying financial statements are condensed and do not include all disclosures normally required by generally accepted accounting principles. These statements should be read in conjunction with the annual financial statements included in Form 10-K filed with the U.S. Securities and Exchange Commission on April 1, 2013. In particular, the nature of operations and significant accounting principles were presented in Note 1 to the annual financial statements. In the opinion of management, all adjustments necessary for a fair presentation have been included in the accompanying unaudited condensed consolidated financial statements and consist of only normal recurring adjustments, except as disclosed herein. The results of operations for the three months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2013.

Principles of Consolidation – The accompanying condensed consolidated financial statements include the accounts and operations of Cogility Software Corporation to February 11, 2013, the accounts and operations of Acquired Sales Corp. from September 29, 2011 and accounts and operations of Defense & Security Technology Group, Inc. from February 14, 2012. The entities for these respective periods are referred to herein as “the Company.” Intercompany accounts and transactions have been eliminated on consolidation.

Basic and Diluted Loss Per Common Share – Basic loss per common share is determined by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted loss per common share is calculated by dividing net loss by the weighted-average number of common shares and dilutive common share equivalents outstanding during the period. When dilutive, the incremental potential common shares issuable upon exercise of stock options and warrants are determined by the treasury stock method. The following table summarizes the calculations of basic and diluted earnings per share for the months ended March 31, 2013 and 2012.

| | For the Three Month Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| Loss from continuing operations | $(233,762) | $(527,494) |
| Income from discontinued operations | 3,975,735 | 2,563 |
| Net income (loss) | $3,741,973 | $(524,931) |
| Basic Weighted-Average Shares Outstanding | 2,935,229 | 2,669,563 |
| Effect of dilutive securities: | | |
| Stock options | 938,428 | - |
| Warrants | 357,067 | - |
| Diluted Weighted-Average Shares Outstanding | 4,230,724 | 2,669,563 |
| Basic Earnings (Loss) per Share | | |
| Continuing operations | $(0.08) | $(0.20) |
| Discontinued operations | 1.35 | - |
| Basic Earnings (Loss) per Share | $1.27 | $(0.20) |
| Diluted Earnings (Loss) per Share | | |
| Continuing Operations | $(0.06) | $(0.20) |
| Discontinued Operations | 0.94 | - |
| Diluted Earnings (Loss) per Share | $0.88 | $(0.20) |

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ACQUIRED SALES CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

There were 100,000 employee stock options and no warrants outstanding during the three months ended March 31, 2013 that were excluded from the computation of diluted earnings (loss) because their effects would have been anti-dilutive. There were 2,343,679 employee stock options and 622,500 warrants outstanding during the three months ended March 31, 2012 that were excluded from the computation of diluted earnings (loss) because their effects would have been anti-dilutive.

Revenue Recognition – The Company enters into contractual arrangements with end-users of its products to sell software licenses, hardware, consulting services and maintenance services, either separately or in various combinations thereof. For each arrangement, revenue is recognized when persuasive evidence of an arrangement exists, the fees to be paid by the customer are fixed or determinable, collection of the fees is probable, and delivery of the product or services has occurred. When the Company is the primary obligor or bears the risk of loss, revenue and costs are recorded on a gross basis. When the Company receives a fixed transactional fee, revenue is recorded under the net method based on the net amount retained.

In contractual arrangements where services are essential to the functionality of the software or hardware, or payment of the license fees are dependent upon the performance of the related services, revenue for the software license, hardware and consulting fees are recognized on the completed-contract method when the contract is substantially completed and all related deliverables have been provided to and accepted by the customer.This method is used because the Company is unable to accurately estimate total cost of individual contracts until the contracts are substantially complete. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Claims for additional compensation are recognized during the period such claims are resolved and collected.

Costs of software, hardware and costs incurred in performing the contract services are deferred until the related revenue is recognized. Contract costs include all purchased software and hardware, subcontract and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, equipment, and travel costs as well as depreciation on equipment used in performance of the contractual arrangements. Depreciation on administrative assets and selling, general and administrative costs are charged to expense as incurred.

Costs in excess of amounts billed are classified as current assets under the caption Costs in excess of billings on uncompleted contracts. Billings in excess of costs are classified as current liabilities under the caption Billings in excess of costs on uncompleted contracts. Contract retentions are included in accounts receivables.

Software Licensing and Hardware Sales: When software licensing and/or hardware functionality are not dependent upon performance of services, the amount of revenue under the arrangement is allocated to the deliverable elements based on prices the Company sells the separate elements, if objectively determinable. If so determinable, the amounts allocated to the software licensing are recognized as revenue at the time of shipment of the software to the customer. Such sales occur when the Company resells third-party software and hardware systems and related peripherals as part of an end-to-end solution to its customers. The Company considers delivery to occur when the product is shipped and title and risk of loss have passed to the customer.

Consulting Services: Consulting services are comprised of consulting, implementation, software installation, data conversion, building interfaces to allow the software to operate in integrated environments, training and applications. Consulting services are sold on a fixed-fee and a time-and-materials basis, with payment normally due upon achievement of specific milestones. Consulting services revenue is recognized under the completed-contract method as described above.

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ACQUIRED SALES CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Maintenance and Support Services: Maintenance and support services consist primarily of fees for providing unspecified software upgrades on a when-and-if-available basis and technical support over a specified term, which is typically twelve months. Maintenance revenues are recognized ratably over the term of the related agreement.

NOTE 2 - RISKS AND UNCERTAINTIES

The Company has a history of recurring losses, which has resulted in an accumulated deficit of $7,758,090 as of March 31, 2013. During the three months ended March 31, 2013, the Company recognized a loss of $233,762 from continuing operations and income of $3,975,735 from discontinued operations for a total income of $3,741,973. The Company used $133,110 of cash in its operating activities from continuing operations and used $969,919 of cash in its operating activities from discontinued operations for total cash used in operating activities of $1,103,029. At March 31, 2013, the Company had working capital of $431,674 and stockholders' equity of $704,476. The Company's financial position improved during the three months ended March 31, 2013 largely due to the sale of Cogility. However, the sale of Cogility also eliminates the Company's primary source of revenue. As a result, there can be no assurance that the Company will not need additional financing or that the Company will be profitable in the future in order to continue as a going concern.

The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE 3 – ACQUISITIONS

Defense & Security Technology Group, Inc. – Acquired Sales purchased 100% of the equity interests of Defense & Security Technology Group, Inc. ("DSTG") on February 13, 2012. The results of DSTG's operations have been included in the consolidated financial statements since that date. DSTG collaborates with clients to help its leaders make distinctive decisions leading to substantial improvements in enterprise performance. Founded in 2007, DSTG is currently fulfilling a limited number of contracts for military and commercial customers.

DSTG was acquired in exchange for 100,000 shares of common stock, stock options to purchase 300,000 common shares at $3.18 per share through February 13, 2017, and stock options to purchase 100,000 common shares at $8.00 per share through May 13, 2017. The fair value of the consideration issued to acquire DSTG was $679,302. The common shares issued were valued at $3.18 per share based on management's estimate of their fair value, or $318,000 in total. The fair value of the stock options granted was $361,302 determined by the Black-Scholes option pricing model with the following weighted-average assumptions: expected future volatility of 56%; risk-free interest rate of 0.29%; dividend yield of 0% and an expected term of 2.5 years. The expected volatility was based on a peer company's volatility and the volatility of indexes of the stock prices of companies in the same industry. The risk-free interest rate was based on the U.S. Federal treasury rate for instruments due over the expected term of the options. The expected term of the options was determined based on one-half of the contractual term.

The purchase of DSTG was a business combination recognized by the acquisition method of accounting. Goodwill was not recognized on the transaction; however, Acquired Sales recognized $32,649 of compensation to the owner of DSTG separately from the recognition of the assets acquired and the liabilities assumed in the business combination. The compensation expense and $40,461 of acquisition-related costs were included in selling, general and administrative expense during the year ended December 31, 2012. The fair value of the assets acquired and the liabilities assumed were measured based on significant inputs that are not observable in the market and are considered Level 3 fair value inputs. The fair value of the assets acquired, liabilities assumed and compensation recognized was as follow:

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ACQUIRED SALES CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

| | |
|---|---|
| Cash | $23,611 |
| Accounts receivable, net | 161,900 |
| Deposits | 4,900 |
| Property and equipment | 2,567 |
| Intangible assets | 601,525 |
| Total assets acquired | 794,503 |
| Accounts payable | (18,393 ) |
| Distributions payable to selling shareholder | (86,000 ) |
| Estimated future costs in excess of future billings on uncompleted contracts | (43,457 ) |
| Total liabilities assumed | (147,850 ) |
| Fair value of net assets acquired | 646,653 |
| Compensaton expense recognized | 32,649 |
| Fair Value of Consideration Issued | $679,302 |

All of the $601,525 of acquired intangible assets relate to non-contractual customer relationships with U.S. government procurement departments. The customer relationships had an estimated useful life of approximately 2 years. The Company recognized amortization expense for the customer relationships of $75,190 and $37,595 for the three months ended March 31, 2013 and 2012 respectively.

The amounts of DSTG's revenue and loss included in Acquired Sales Corp.'s condensed consolidated statement of operations for the three months ended March 31, 2012 and the revenue and loss of the combined entity had the acquisition dates of DSTG been January 1, 2012 are as follows:

| | Revenue | Loss |
|---|---|---|
| Actual for the three months ended March 31, 2012 | $8,500 | $(99,060 ) |
| Supplemental pro forma for the three months ended March 31, 2012 | $1,350,506 | $(389,158 ) |

NOTE 4 – EARNINGS AND COSTS ON UNCOMPLETED CONTRACTS

At March 31, 2013 the Company was in the process of providing services to two customers. Revenue and costs on the uncompleted contracts were deferred at March 31, 2013 and will be recognized upon completion of the contracts. Contract billings in excess of contract costs on uncompleted contracts at March 31, 2013 and December 31, 2012 were as follows:

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ACQUIRED SALES CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| Billings to date | $739,500 | $814,105 |
| Less: Costs on uncompleted contracts | (587,051 ) | (437,455 ) |
| Billings in Excess of Costs on Uncompleted Contracts | $152,449 | $376,650 |

NOTE 5 – RELATED PARTY TRANSACTIONS

At December 31, 2012 the Company had recorded accrued compensation that includes $570,979 in deferred payroll and vacation pay, and payroll taxes payable, $110,777 in employee reimbursements payable, and commissions payable to one current and one former employee in the aggregate amount of $198,967. Under the terms of the Cogility purchase agreement all but $105,547 of the accrued compensation was paid with the proceeds of the escrow account.

On September 13, 2011, a key executive resigned his position and entered into a severance agreement with the Company. On September 16, 2010, the Company had signed a letter agreeing to pay the former executive officer $47,000 in one-time commissions, with payment deferred until 30 days after the closing of a private placement of common stock or debt convertible into common stock in the total amount of at least $2,000,000. Under the severance agreement the former executive officer is to receive a one-time bonus of $35,000 and deferred compensation of $18,432 payable upon the completion of a private placement of common stock or debt convertible into common stock in the total amount of at least $2,000,000. Under the terms of the Cogility purchase agreement the liability was paid in full with the proceeds of the escrow account.

Notes Payable to Related Parties – At December 31, 2012, the Company had notes payable to a significant shareholder, affiliated with an officer of the Company for $525,000. The notes are unsecured, non-interest bearing and due upon demand. The Company has entered into an agreement with the significant shareholder that, at such time as the Company is financially able to do so and at the reasonable discretion of the chief executive officer of the Company, the notes payable held by the significant shareholder would be extinguished in full by the payment of $262,500 in cash and the issuance of 85,548 shares common stock. Based on the fair value of the Company's common stock on the date of the agreement of $3.18 per share, the significant shareholder received a contingent beneficial conversion feature in connection with the agreement. The Company recognized a loss of $10,980 that is included in loss from extinguishment of debt for the three months ended March 31, 2013. Under the terms of the Cogility purchase agreement the liability was paid in full with the proceeds of the escrow account.

At December 31, 2012, the Company had $375,000 of notes payable to related parties that are secured by all the assets of the Company, bear interest at 3% per annum and are due December 31, 2014. The notes were issued with warrants to purchase common stock that resulted in the notes payable being carried at a discount to their face value. At February 11, 2013, the carrying amount of the notes payable was $344,601, net of $30,399 of unamortized discount. Under the terms of the Cogility purchase agreement the liability was paid in full with the proceeds of the escrow account. The Company recognized a loss of $30,399 on early extinguishment of debt relating to unamortized discount.

On January 30, 2012 an officer advanced the Company $75,000 for short term working capital needs. The loan was without interest, unsecured and due upon demand. On April 1, 2012, the terms of the loan were renegotiated such that the loan bears interest at 6% per annum, payable quarterly, and is due upon demand. In addition the officer was awarded 37,500 warrants to purchase common stock at a price of $2.00 per share. All of the warrants expire 5 years from their respective issuance dates. The fair value of the 37,500 warrants issued was estimated to be $58,174 using the Black-Scholes option pricing model using the following weighted-average assumptions: estimated future volatility of 52.61%; risk-free interest rate of 0.33%; dividend yield of 0% and an estimated term of 2.5 years. The renegotiation was treated as an extinguishment of debt. The Company recognized a loss on the extinguishment of debt of $58,174. Under the terms of the Cogility purchase agreement the liability was paid in full with the proceeds of the escrow account.

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In connection with the acquisition of DSTG on February 13, 2012, the Company assumed an $86,000 distribution payable to the former DSTG shareholder. The liability is without interest, due upon demand and unsecured. On July 25, 2012, the terms of the loan were renegotiated such that the loan bears interest at 6% per annum, payable quarterly, and is due upon demand. In addition the officer was awarded 43,000 warrants to purchase common stock at a price of $3.25 per share. All of the warrants expire 5 years from their respective issuance dates. The fair value of the 43,000 warrants issued was estimated to be $41,646 using the Black-Scholes option pricing model using the following weighted-average assumptions: estimated future volatility of 47.80%; risk-free interest rate of 0.25%; dividend yield of 0% and an estimated term of 2.5 years. The renegotiation was treated as an extinguishment of debt. The Company recognized a loss on the extinguishment of debt of $41,646. Under the terms of the Cogility purchase agreement the liability was paid in full with the proceeds of the escrow account.

On February 14, 2012, the Company borrowed $200,000 from a director of the Company. Attached with the note payable were 100,000 warrants to purchase common stock at a price of $2.00 per share. On March 13, 2012, the Company borrowed another $25,000 from a director of the Company. Attached with this note payable were 12,500 warrants to purchase common stock at a price of $2.00 per share. On March 29, 2012, the Company borrowed $100,000 from an entity related to an officer of the Company. Attached with this note payable were 50,000 warrants to purchase common stock at a price of $2.00 per share. All of the related notes payable bear interest at 6% per annum, payable quarterly, and are due upon demand. All of the warrants expire 5 years from their respective issuance dates. Under the terms of the Cogility purchase agreement the liability was paid in full with the proceeds of the escrow account.

In association with the aggregate notes payable of $325,000, the fair value of the 162,500 warrants issued was estimated to be $252,102 using the Black-Scholes option pricing model using the following weighted-average assumptions: estimated future volatility of 52.62%; risk-free interest rate of 0.33%; dividend yield of 0% and an estimated term of 2.5 years. The warrants qualify to be recognized as stockholders' equity; therefore, the consideration received was allocated to the notes payable and the warrants based on their relative fair values and resulted in $183,027 being allocated to the notes payable and $141,973 allocated to the warrants. Because the notes are due on demand, the $141,973 discount to the notes payable was immediately recognized as interest expense.

On March 31, 2012 a significant shareholder advanced the Company $60,000 for short-term working capital needs. The loan was without interest, unsecured and due upon demand. The note payable was paid in full on April 13, 2012.

On June 4, 2012 the Company borrowed an additional $100,000 from an officer of the Company. Attached with this note payable were 50,000 warrants to purchase common stock at a price of $2.00 per share. The related note payable bears interest at 6% per annum, payable quarterly, and is due upon demand. All of the warrants expire 5 years from their issuance dates. Under the terms of the Cogility purchase agreement the liability was paid in full with the proceeds of the escrow account.

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In association with the notes payable of $100,000, the fair value of the 50,000 warrants issued was estimated to be $75,010 using the Black-Scholes option pricing model using the following weighted-average assumptions: estimated future volatility of 50.62%; risk-free interest rate of 0.25%; dividend yield of 0% and an estimated term of 2.5 years. The warrants qualify to be recognized as stockholders' equity; therefore, the consideration received was allocated to the notes payable and the warrants based on their relative fair values and resulted in $57,134 being allocated to the notes payable and $42,866 allocated to the warrants. Because the notes are due on demand, the $42,866 discount to the notes payable was immediately recognized as interest expense.

On July 16 and 25, 2012 the Company borrowed $50,000 and $50,000, respectively, from an officer of the Company.  Attached to the notes payable were a total of 50,000 warrants to purchase common stock at a price of $3.25 per share. On July 9, 2012, the Company borrowed another $30,000 from a director of the Company. Attached with this note payable were 15,000 warrants to purchase common stock at a price of $3.25 per share. On July 13, 2012, the Company borrowed $100,000 from an entity related to an officer of the Company. Attached with this note payable were 50,000 warrants to purchase common stock at a price of $3.25 per share. All of the related notes payable bear interest at 6% per annum, payable quarterly, and are due upon demand. All of the warrants expire 5 years from their respective issuance dates. Under the terms of the Cogility purchase agreement the liability was paid in full with the proceeds of the escrow account.

In association with the aggregate notes payable of $230,000, the fair value of the 115,000 warrants issued was estimated to be $110,417 using the Black-Scholes option pricing model using the following weighted-average assumptions: estimated future volatility of 47.58%; risk-free interest rate of 0.25%; dividend yield of 0% and an estimated term of 2.5 years. The warrants qualify to be recognized as stockholders' equity; therefore, the consideration received was allocated to the notes payable and the warrants based on their relative fair values and resulted in $155,397 being allocated to the notes payable and $74,603 allocated to the warrants. Because the notes are due on demand, the $74,603 discount to the notes payable was immediately recognized as interest expense.

On December 13, 2012 the Company borrowed $20,000, from an entity related to an officer of the Company.  Attached to the notes payable were a total of 10,000 warrants to purchase common stock at a price of $3.50 per share. On December 13, 2012, the Company borrowed another $20,000 from a director of the Company. Attached with this note payable were 10,000 warrants to purchase common stock at a price of $3.50 per share. On December 14, 2012, the Company borrowed $100,000 from an officer of the Company. Attached with this note payable were 50,000 warrants to purchase common stock at a price of $3.50 per share. All of the related notes payable bear interest at 6% per annum, payable quarterly, and are due upon demand. All of the warrants expire 5 years from their respective issuance dates. Under the terms of the Cogility purchase agreement all of the notes payable were paid in full with the proceeds of the escrow account.

In association with the aggregate notes payable of $140,000, the fair value of the 70,000 warrants issued was estimated to be $74,122 using the Black-Scholes option pricing model using the following weighted-average assumptions: estimated future volatility of 56.49%; risk-free interest rate of 0.26%; dividend yield of 0% and an estimated term of 2.5 years. The warrants qualify to be recognized as stockholders' equity; therefore, the consideration received was allocated to the notes payable and the warrants based on their relative fair values and resulted in $77,067 being allocated to the notes payable and $62,933 allocated to the warrants. Because the notes are due on demand, the $62,933 discount to the notes payable was immediately recognized as interest expense.

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At March 31, 2013 an officer of the Company had advanced the Company a total of $32,500 for short-term working capital needs. The loan is without interest, unsecured and due upon demand. Under the terms of the Cogility purchase agreement the advance was paid in full with the proceeds of the escrow account.

The details of the terms of the notes payable to related parties and their carrying amounts were as follows at March 31, 2013 and December 31, 2012:

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| Non-interest bearing notes payable to an entity related to an officer of the Company; unsecured; settled in February 2013 | $- | $525,000 |
| 3% Notes payable to related parties; secured by all of the assets of the Company; settled in February 2013 | - | 344,601 |
| 6% Notes payable to related parties; settled in February 2013 | - | 870,000 |
| Non-interest bearing notes payable to a shareholder and officer of the Company; unsecured; settled in February 2013 | - | 8,275 |
| Distribution payable to the former DSTG shareholder settled in February 2013 | - | 86,000 |
| Total Notes Payable - Related Parties | - | 1,833,876 |
| Less: Current portion | - | (1,489,275) |
| Long-Term Notes Payable - Related Parties | $- | $344,601 |

NOTE 6– NOTES PAYABLE

Notes Payable –At December 31, 2012, notes payable to a lending company totaled $130,070, are unsecured, non-interest bearing and due on demand. The Company did not impute interest on the loans as such imputed interest would not have been material to the accompanying financial statements. Under the terms of the Cogility purchase agreement the liability was paid in full with the proceeds of the escrow account.

At December 31, 2012, The Company had $520,000 of notes payable to third parties that are secured by all the assets of the Company, bear interest at 3% per annum and are due December 31, 2014. The notes were issued with warrants to purchase common stock that resulted in the notes payable being carried at a discount to their face value. At December 31, 2013, the carrying amount of the notes was $480,480, net of $39,520 of unamortized discount. Under the terms of the Cogility purchase agreement the liability was paid in full with the proceeds of the escrow account. The Company recognized a loss of $39,520 on early extinguishment of debt relating to unamortized discount.

The details of the terms of the notes payable and their carrying amounts were as follows at March 31, 2013 and December 31, 2012:

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| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| Non-interest bearing notes payable to a lending company; unsecured; settled in February 2013 | $- | $130,070 |
| 3% $520,000 Notes payable; secured by all of the assets of the Company; settled in February 2013 | - | 480,480 |
| Total Notes Payable | - | 610,550 |
| Less: Current portion | - | (130,070 ) |
| Long-Term Notes Payable | $- | $480,480 |

NOTE 7 – SHAREHOLDERS' EQUITY (DEFICIT)

During the three months ended March 31, 2012, the chief executive officer and shareholder of the Company provided services to the Company, which services were determined by the board of directors to have had a fair value of $62,500 for each period. The Company has recognized a capital contribution of $62,500 during the three months ended March 31, 2012 for the services provided by the executive officer.

On March 31, 2012, the Company granted stock options to directors for the purchase of 290,000 shares of common stock at $2.00 per share. The options vested on the date granted. The grant-date fair value of these options was $449,905, or a weighted-average fair value of $1.55 per share, determined by the Black-Scholes option pricing model using the following weighted-average assumptions: expected future volatility of 53%; risk-free interest rate of 0.33%; dividend yield of 0% and an expected term of 2.5 years. The expected volatility was based on a peer company's volatility and the volatility of indexes of the stock prices of companies in the same industry. The risk-free interest rate was based on the U.S. Federal treasury rate for instruments due over the expected term of the options. The expected term of the options was determined based on one half of the contractual term.

Following is a summary of stock option activity as of March 31, 2013 and changes during the three months then ended:

| | Shares | Weighted - Average Exercise Price | Weighted- Average Remaining Contractual Term (Years) | Aggregate Instrinsic Value |
|---|---|---|---|---|
| Outstanding, December 31, 2012 | 2,336,981 | 2.29 | | |
| Forfeited | (163,207 ) | (1.76 ) | | |
| Outstanding, March 31, 2013 | 2,173,774 | $2.32 | 7.33 | $2,088,338 |
| Exercisable, March 31, 2013 | 2,173,774 | $2.32 | 7.33 | $2,088,338 |

The Company had 938,000 warrants outstanding at March 31, 2013 at a weighted average exercise price of $2.29 a share, a weighted average remaining contractual term of 13.23 year and an aggregrate intrinsic value of $1,339,000.

Share-based compensation expense charged against operations during the three months ended March 31, 2012 was $449,905 and was included in selling, general and administrative expenses. There was no income tax benefit recognized. As of March 31, 2013, all compensation expense related to stock options had been recognized.

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NOTE 8 – COMMITMENTS AND CONTINGENCIES

The Company entered into an agreement with a consultant on February 18, 2011 whereby the Company agreed to pay the consultant a fee based on net revenue received from two potential new software products. The fee would be equal to 5% of the net revenue received, after deducting software licensing and equipment costs from third parties, from two potential contracts and, for a period of five years, any subsequent revenue from reselling the work product that may result from providing software and services under either of the two potential contracts. No fees were paid or accrued under this agreement during the three months ended March 31, 2013 or March 31, 2012.

One of Cogility's employees claims that he has filed a wage claim against Cogility for $302,000 with the California Labor Board. It is the Company's understanding that the California Labor Board declined to consider this claim, and advised the Cogility employee that he should more appropriately pursue his wage claim in the courts. If the Cogility employee pursues his wage claim in the courts, the Company intends to vigorously defend against such claim. The range of potential loss from this claim is up to $302,000 and the Company believes it has adequately provided for this potential claim in the accompanying consolidated financial statements.

The Company is subject to other legal proceedings, claims, and litigation arising in the ordinary course of business. The Company defends itself vigorously against any such claims. Although the outcome of these other matters is currently not determinable, management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

NOTE 9– SALE OF SUBSIDIARY

On January 12, 2013, Acquired Sales entered into an agreement with Drumright Group, LLC (“Drumright”) that was closed on February 11, 2013, wherein Acquired Sales sold 100% of the capital stock of its subsidiary, Cogility Software Corporation (“Cogility”) to Drumright in exchange for $3,975,000 in cash and a $3,000,000 receivable. The $3,000,000 is receivable as follows: $1,500,000 on August 11, 2013, less an estimated $32,258 in connection with a certain military contract delay, and $1,500,000 on February 11, 2014. In addition, Acquired Sales was required to hold $300,000 in an escrow account for potential subsequent claims. Acquired Sales was responsible for all costs and expenses and retained all accounts receivable relating to work performed by Cogility on revenue contracts through January 31, 2013, with those costs, expenses and revenue transitioning to Drumright thereafter. Acquired Sales retained a contract to create “legal analytics” software.

Under the terms of the agreement, Acquired Sales was required to transfer Cogility to Drumright without any liabilities. To accomplish this requirement, the $3,975,000 down payment was placed into an escrow account and to the extent necessary was used to pay Cogility’s liabilities, including liabilities that were secured by Cogility’s assets or its capital stock.

The Company agreed to indemnify Drumright for losses caused by breaches of the Company’s representations and warranties. In March 2013, Drumright notified the Company of the existence of a second amendment to a license agreement between Cogility and one of its customers that was effective April 2007. Despite the fact that Acquired Sales' management was not aware of the existence of the second amendment until Drumright’s notification in March 2013. In the event that Drumright determines that such second amendment to the license agreement will result in losses to Drumright, Drumright could make a claim for indemnification against the Company or otherwise could file a lawsuit against Acquired Sales. The Company estimates that the range of potential loss from this claim is up to

$3,200,000 and will affect the amount of gain the Company will recognize from the sale of Cogility. In addition, the Company believes the collection of the accounts receivable earned prior to January 31, 2013 is also at risk and will reduce the amount of gain the Company will recognize from the sale of Cogility by the amount of those receivables. The gain on sale of Cogility was $3,731,389.

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The historical results of Cogility's operations have been reclassified to discontinued operations for the three months and are included in the accompanying consolidated financial statements. Operating results of Cogility included in discontinued operations for the three months ended March 31, 2013 and 2012 were as follows:

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| Revenues | $345,220 | $910,583 |
| Cost of services | 105,762 | 306,999 |
| Gross Profit | 239,458 | 603,584 |
| Selling and general and administrative expenses | 191,914 | 456,609 |
| Income from operations | 47,544 | 146,975 |
| Income from extinguishment of debt | (202,573 ) | - |
| Interest expense | 4,971 | 143,612 |
| Loss before provision for income taxes | 245,146 | 3,363 |
| Income taxes | 800 | 800 |
| Net Income from Discontinued Operations | $244,346 | $2,563 |

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

As used in this 10Q, references to the “Company,” “Acquires Sales,” “we,” “our” or “us” refer to Acquired Sales Corp., unl the context otherwise indicates.

On November 4, 2010, Acquired Sales Corp. (“Acquired Sales”) entered into an agreement with Cogility Software Corporation (“Cogility”) that was closed on September 29, 2011, whereby Cogility was merged with and into a newly-formed subsidiary of Acquired Sales. To effect the merger, Cogility shareholders owning 100% of the 11,530,493 Cogility common shares outstanding received 2,175,564 Acquired Sales common shares, or one Acquired Sales common share for each 5.3 Cogility common shares outstanding. Acquired Sales reverse split its common shares outstanding on a 1-for-20 basis, which results in the 5,832,482 Acquired Sales pre-split common shares outstanding before the merger becoming 291,760 common shares. In addition, Cogility had stock options outstanding that would have permitted the holders thereof to purchase 5,724,666 Cogility common shares at prices ranging from $0.001 to $1.40 per share. In the merger transaction, the Cogility option holders exchange these stock options for 1,080,126 Acquired Sales stock options exercisable at prices ranging from $0.001 to $5.00 per share.

The Cogility shareholders received 88.2% of the common shares outstanding after the merger and the shareholders and management of Cogility gained ownership and operating control of the combined company after the merger. Accordingly, Cogility was considered the accounting acquirer under current accounting guidance and the merger was recognized as a recapitalization of Cogility. The results of operations prior to the merger are those of Cogility, restated on a retroactive basis for all periods presented for the effects of the 5.3-for-1 reverse stock split. The exchange of the stock options was considered to be part of the recapitalization of Cogility and was not a modification of the Cogility stock options.

On February 13, 2012, Acquired Sales purchased 100% of the equity interests of Defense & Security Technology Group, Inc. (“DSTG”). The results of DSTG’s operations have been included in the consolidated financial statements since that date.

On January 12, 2013, Acquired Sales entered into an agreement with Drumright Group, LLC (“Drumright”) that was closed on February 11, 2013, wherein Acquired Sales sold 100% of the capital stock of Cogility to Drumright in exchange for $3,975,000 in cash and a $3,000,000 receivable.  Under the terms of the agreement, Acquired Sales was required to transfer Cogility to Drumright without any liabilities. To accomplish this requirement, the $3,975,000 down payment was placed into an escrow account and to the extent necessary was used to pay Cogility’s liabilities remaining at the closing date including liabilities that were secured by Cogility’s assets or its capital stock. Acquired Sales was entitled to all accounts receivable earned prior to January 31, 2013.  The historical results of Cogility’s operations have been reclassified to discontinued operations.

The Company agreed to indemnify Drumright for losses caused by breaches of the Company’s representations and warranties. In March 2013, Drumright notified the Company of the existence of a second amendment to a license agreement between Cogility and one of its customers that was effective April 2007. Despite the fact that Acquired Sales' management was not aware of the existence of the second amendment until Drumright’s notification in March 2013, in the event that Drumright determines that such second amendment to the license agreement will result in losses to Drumright, Drumright could make a claim for indemnification against the Company or otherwise could file a lawsuit against Acquired Sales. The Company estimates that the range of potential loss from this claim is up to $3,200,000 and affected the amount of gain the Company recognized from the sale of Cogility by excluding from the gain on sale any potential collection of the $3,000,000 receivable. In addition, the Company believes the collection of the accounts receivable earned prior to January 31, 2013 is also at risk and reduced the amount of gain the Company recognized from the sale of Cogility by the amount of those receivables.

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The Company has a history of recurring losses, which has resulted in an accumulated deficit of $7,758,090 as of March 31, 2013. During the three months ended March 31, 2013, the Company recognized a loss of $233,762 from continuing operations and income of $3,975,735 from discontinued operations for a total income of $3,741,973. The Company used $133,110 of cash in its operating activities from continuing operations and used $969,919 of cash in its operating activities from discontinued operations for total cash used in operating activities of $1,103,029. At March 31, 2013, the Company had working capital of $431,674 and stockholders' equity of $704,476. The Company's financial position improved during the three months ended March 31, 2013 largely due to the sale of Cogility. However, the sale of Cogility also eliminates the Company's primary source of revenue. As a result, there can be no assurance that the Company will not need additional financing or that the Company will be profitable in the future in order to continue as a going concern.

This Management's Discussion and Analysis or Plan of Operations ("MD&A") section discusses our results of operations, liquidity and financial condition, contractual relationships and certain factors that may affect our future results. You should read this MD&A in conjunction with our financial statements and accompanying notes included for Acquired Sales Corp. Software Corporation.

Forward-Looking Statements

This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors discussed elsewhere in this report, including the "Risk Factors" included herein.

Certain information included herein contains statements that may be considered forward-looking statements, such as statements relating to our anticipated revenues and operating results, future performance and operations, plans for future expansion, capital spending, sources of liquidity and financing sources. Such forward-looking information involves important risks and uncertainties that could significantly affect anticipated results in the future, and accordingly, such results may differ from those expressed in any forward-looking statements made herein. These risks and uncertainties include the "Risk Factors" included in herein, such as those relating to our present condition of insolvency with risk of bankruptcy, failure of our marketing and sales activities to obtain new paying contracts during the past few months, vigorous competition in the software industry, dependence on existing management, leverage and debt that cannot be served at current income levels, budgetary constraints affecting the U.S. defense and intelligence communities, negative domestic and global economic conditions, and other Risk Factors.

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Overview

Acquired Sales Corp. is incorporated under the laws of the State of Nevada. Acquired Sales Corp. through its wholly owned Subsidiary, Cogility Software Corporation ("Cogility"), has developed software technology that is solving mission-critical problems facing the US defense and intelligence communities and many corporations today.

On January 12, 2013, Acquired Sales entered into an agreement with Drumright Group, LLC ("Drumright") that was closed on February 11, 2013, wherein Acquired Sales sold 100% of the capital stock of Cogility to Drumright in exchange for $3,975,000 in cash and a $3,000,000 receivable. Under the terms of the agreement, Acquired Sales was required to transfer Cogility to Drumright without any liabilities. To accomplish this requirement, the $3,975,000 down payment was placed into an escrow account and to the extent necessary was used to pay Cogility's liabilities remaining at the closing date including liabilities that were secured by Cogility's assets or its capital stock. Acquired Sales was entitled to all accounts receivable earned prior to January 31, 2013. The historical results of Cogility's operations have been reclassified to discontinued operations.

The Company agreed to indemnify Drumright for losses caused by breaches of the Company's representations and warranties. In March 2013, Drumright notified the Company of the existence of a second amendment to a license agreement between Cogility and one of its customers that was effective April 2007. Despite the fact that Acquired Sales' management was not aware of the existence of the second amendment until Drumright's notification in March 2013, in the event that Drumright determines that such second amendment to the license agreement will result in losses to Drumright, Drumright could make a claim for indemnification against the Company or otherwise could file a lawsuit against Acquired Sales. The Company estimates that the range of potential loss from this claim is up to $3,200,000 and affected the amount of gain the Company recognized from the sale of Cogility by excluding from the gain on sale any potential collection of the $3,000,000 receivable. In addition, the Company believes the collection of the accounts receivable earned prior to January 31, 2013 is also at risk and reduced the amount of gain the Company recognized from the sale of Cogility by the amount of those receivables.

Acquired Sales through its wholly owned subsidiary DSTG continues to collaborates with clients to help its leaders make distinctive decisions leading to substantial improvements in enterprise performance. Founded in 2007, DSTG is currently fulfilling a limited number of contracts for military and commercial customers.

Liquidity and Capital Resources

The following table summarizes the Company's cash and cash equivalents, working capital and long-term debt as of March 31, 2013 and December 31, 2012, as well as cash flows for the three months ended March 31, 2013 and 2012.

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| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| Cash and cash equivalents | $502,174 | $186,914 |
| Working capital | 431,674 | (2,852,954) |
| Long-term debt | - | 825,081 |

| | For the Three Months Ended March 31 | |
|---|---|---|
| | 2013 | 2012 |
| Cash provided by ( used in ) operating activities from continuing operations | $(133,110) | $227,554 |
| Cash used in operating activities from discontinued operations | (969,919) | (730,974) |
| Cash provided by investing activities from continuing operations | 3,670,135 | 23,611 |
| Cash used in investing activities from discontinuing operations | - | (2,591) |
| Cash provided by (used in ) financing activities | (2,251,846) | 460,000 |

At March 31, 2013 the Company had cash of $502,174 and $23,250 of accounts receivable. Total current assets at March 31, 2013 were $826,362 an amount adequate to fund current operations and fulfill corporate obligations, but not enough to fund growth and potential acquisitions. Current liabilities at March 31, 2013 included $136,692 of accounts payable; $152,449 of billings in excess of costs on uncompleted contracts; and $105,547 of accrued employee costs. Billings in excess of costs on uncompleted contracts represent deferred revenues net of costs on contracts that are currently in process and accounted for under the completed contract method of accounting. Notes payable and notes payable to related party represents debt incurred by the Company to fund operating activities. Amounts owed to employees represents deferred payroll and payroll taxes, commissions and reimbursable expenses.

During the three months ended March 31, 2013 the Company used nearly all of the cash proceeds from the sale of Cogility in the amount of $3,975,000 to pay off its corporate debt and obligations leaving the Company with $502,174 in cash at March 31, 2013.

Comparison of March 31, 2013 and March 31, 2012

The Company recognized income from operations of $3,741,973, mainly due to a one time gain on the sale of its subsidiary Cogility Software Corporation. The Company incurred a loss from continuing operations of $233,762 mainly due to revenues net of costs on contracts in process recognized upon completion. The Company through its wholly owned subsidiary DSTG has two contracts in progress at March 31, 2013 whose revenues in excess of costs are deferred until such time the contracts are completed. Income from discontinued operations of $3,975,735 includes gain on sale of Cogility of $3,731,389. The Company has greatly reduced its overhead costs with the sale of Cogility. Our current labor force consists of one full time and one part time employee. All other labor is hired on a contract basis. This has substantially reduced the Company's fixed costs on a go forward basis.

The Company incurred a net loss of $527,494 from continuing operations and realized income from discontinued operations of $2,563 for the three months ended March 31, 2012 mainly due to the lack of revenues generated for the period as well as the recognition of stock option and stock warrant expense. Under the completed contract method of accounting revenues for contract in progress are deferred net of costs, until such time the contract is completed. The Company had three contracts in process whose revenues net of costs were being deferred until such time the contracts are complete.  The nature of the Company's operations made it difficult to scale back costs in periods of reduced revenue. The Company's labor force was our largest cost, the employees were specifically trained and extremely difficult to replace.

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The Company used cash from continuing operations of $133,110 and $969,919 from discontinued operations for the three months ended March 31, 2013 primarily due to the repayment of nearly all accounts payable and accrued expenses in accordance with the Cogility purchase agreement. The Company was provided cash from continuing operations of $227,554 and used cash of $730,974 from discontinued operations for the three months ended March 31, 2012. Cash provided from continuing operations was the result of increases in noncash expenditures relating to share based compensation and amortization of discount. Cash used in discontinued operations was the result of increases in billings in excess of costs on uncompleted contracts as well as reductions in accounts payable and an increase in accounts receivable.

The Company had net cash provided by investing activities from continuing operations of $3,670,135 for the three months ended March 31, 2013 primarily due to cash received from the sale of Cogility. This is compared to $23,611 of cash provided by investing activities from continuing operations and $2,591 used in discontinued operations for the three months ended March 31, 2012.

The Company used $2,251,846 of cash in its financing activities to pay down all the corporate debt in accordance with the Cogility purchase agreement during the three months ended March 31, 2013. This compared to $460,000 of cash provided by financing activities during the three months ended March 31, 2012.

During the three months ended March 31, 2013, cash increased by $315,260 leaving the Company with $502,174 in unrestricted cash at March 31, 2013. This is compared to a $22,400 decrease in cash during the three months ended March 31, 2012.

The Company has two contracts in process at March 31, 2013, with anticipated billings of approximately $1,400,000, however there can be no assurance whatsoever that the Company will continue to generate significant income in the future. The Company continues to pursue new contracts from both the U.S. defense and intelligence communities and from commercial customers through its wholly owned subsidiary DSTG, however, there can be no assurance whatsoever that such effort will be successful or will result in revenues to Acquired Sales Corp. on any particular timetable or in any particular amounts. The Company has a history of losses as evidenced by the accumulated deficit at March 31, 2013 of $7,758,090.

Results of Operations

The Company through its wholly owned subsidiary enters into contractual arrangements with end-users of its products to sell software licenses, hardware, consulting services and maintenance services, either separately or in various combinations thereof. For each arrangement, revenue is recognized when persuasive evidence of an arrangement exists, the fees to be paid by the customer are fixed or determinable, collection of the fees is probable, and delivery of the product or services has occurred. See additional revenue recognition disclosure under “Critical Accounting Policies.”

Cost of revenue consists primarily of the cost of hardware and software and the cost of services provided to customers. Cost of services includes direct costs of labor, employee benefits and related travel.

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Selling, general and administrative expenses primarily consist of professional fees, salaries and related costs for accounting, administration, finance, human resources, information systems and legal personnel.

Comparison of the three months ended March 31, 2013 to March 31, 2012

Revenue – There was no revenue from continuing operations for the three months ended March 31,2013 and there was $48,500 income from continuing operation for the three months ended March 31, 2012. This represents a decrease of $48,500 and represents the revenue of DSTG only. Revenue, net of costs, on contracts in progress is deferred until such time the contracts are completed. Revenue from discontinued operations was $345,220 and $910,583 for the three months ended March 31, 2013 and 2012, respectively, representing a decrease of $565,363. Discontinued operations represent the operations of Cogility Software Corporation. The Company closed several contracts during the three months ended March 31, 2013 and 2012, including contracts that had been in process at December 31, 2012 and 2011.

Cost of Revenue – There was no cost of revenue from continuing operations for the three months ended March 31, 2013 and $9,380 from continuing operation for the three months ended March 31, 2012. This represents a decrease of $9,380 and represents the cost of revenue of DSTG only. DSTG had closed a single contract during three months ended March 31, 2012. Cost of revenues consists mainly of labor costs. With the sale of Cogility, DSTG must rely on outsourced labor to provide services for its contracts in process. Cost of revenue from discontinued operations was $105,762 and $306,999 for the three months ended March 31, 2013 and 2012, respectively, representing a decrease of $201,237. Discontinued operations represent the operations of Cogility Software Corporation. The Company closed several contracts during the three months ended March 31,2012, including contracts that had been in process at December 31, 2011 increasing the associated cost of revenue

Cost of services for continuing and discontinued operations for the three months ended March 31, 2013 and 2012, includes direct costs of labor, employee benefits and related travel.

The changes with respect to our revenues and our cost of revenue for the three months ended March 31, 2013 and 2012 are summarized as follows:

| | For the Three Months Ended March 31, 2013 | 2012 | Change |
|---|---|---|---|
| REVENUE | | | |
| From continuing operations | - | 48,500 | (48,500 ) |
| From discontinued operations | 345,220 | 910,583 | (565,363 ) |
| Total Revenue | $345,220 | $959,083 | $(613,863 ) |
| | | | |
| COST OF REVENUE | | | |
| From continuing operations | - | 9,380 | (9,380 ) |
| From discontinued operations | 105,762 | 306,999 | (201,237 ) |
| Total Cost of Revenue | 105,762 | 316,379 | (210,617 ) |
| Gross Profit | $239,458 | $642,704 | $(403,246 ) |

Although the preceding table summarizes the net changes with respect to our revenues and our cost of revenue for the three ended March 31, 2013 and 2012, the trends contained therein are limited and should not be viewed as a definitive indication of our future results.

Selling, General and Administrative Expense – Selling, general and administrative expense, including non-cash compensation expense from continuing operations, was $74,390 for the three months ended March 31, 2013, compared to $513,956 for the three months ended March 31, 2012, representing a decrease of $439,566, or 85.5%. The decrease in our selling, general and administrative expense related to a decrease in stock based compensation expense.

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Net Income (Loss) – The Company recognized income from operations of $3,741,973, mainly due to a one time gain on the sale of its subsidiary Cogility Software Corporation. The Company incurred a loss from continuing operations of $233,762 mainly due to revenues net if costs on contracts in process recognized upon completion. The Company through its wholly owned subsidiary DSTG has two contracts in progress at March 31, 2013 whose revenues in excess of costs are deferred until such time the contracts are completed. Income from discontinued operations of $3,975,735 includes gain on sale of Cogility of $3,731,389. The Company has greatly reduced its overhead costs with the sale of Cogility. Our current labor force consists of one full time and one part time employee. All other labor is hired on a contract basis. This has substantially reduced the Company's fixed costs on a go forward basis.

Critical Accounting Policies

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Significant estimates include share-based compensation forfeiture rates and the potential outcome of future tax consequences of events that have been recognized for financial reporting purposes. Actual results and outcomes may differ from management's estimates and assumptions.

Accounts Receivable – Accounts receivable are stated at the amount billed to customers, net an allowance for doubtful accounts. The Company evaluates the collectability of the amount receivable from each customer and provides an allowance for those amounts estimated to be uncertain of collection. Accounts determined to be uncollectible are written off against the allowance for doubtful accounts.

Property and Equipment – Property and equipment are recorded at cost less accumulated depreciation. Maintenance, repairs, and minor replacements are charged to expense as incurred. When depreciable assets are retired, sold, traded in or otherwise disposed, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in operations. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets, which are three to five years.

Software Development Costs – Software development costs consist primarily of compensation of development personnel, related overhead incurred to develop new products and upgrade and enhance the Company's current products and fees paid to outside consultants. Software development costs incurred subsequent to the determination of technological feasibility and marketability of a software product are capitalized. Capitalization of costs ceases and amortization of capitalized software development costs commences when the products are available for general release. For the three months ended March 31, 2013and 2012, no software development costs were capitalized because the time period and cost incurred between technological feasibility and general release for all software product releases was insignificant.

Revenue Recognition – The Company enters into contractual arrangements with end-users of its products to sell software licenses, hardware, consulting services and maintenance services, either separately or in various combinations thereof. For each arrangement, revenue is recognized when persuasive evidence of an arrangement exists, the fees to be paid by the customer are fixed or determinable, collection of the fees is probable, and delivery of the product or services has occurred. When the Company is the primary obligor or bears the risk of loss, revenue and costs are recorded on a gross basis. When the Company receives a fixed transactional fee, revenue is recorded under the net method based on the net amount retained.

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In contractual arrangements where services are essential to the functionality of the software or hardware, or payment of the license fees are dependent upon the performance of the related services, revenue for the software license, hardware and consulting fees are recognized on the completed-contract method when the contract is substantially completed and all related deliverables have been provided to and accepted by the customer. This method is used because the Company is unable to accurately estimate total cost of individual contracts until the contracts are substantially complete. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Claims for additional compensation are recognized during the period such claims are resolved and collected.

Costs of software, hardware and costs incurred in performing the contract services are deferred until the related revenue is recognized. Contract costs include all purchased software and hardware, subcontract and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, equipment, and travel costs as well as depreciation on equipment used in performance of the contractual arrangements. Depreciation on administrative assets and selling, general and administrative costs are charged to expense as incurred.

Costs in excess of amounts billed are classified as current assets under the caption Costs in excess of billings on uncompleted contracts. Billings in excess of costs are classified as current liabilities under the caption Billings in excess of costs on uncompleted contracts. Contract retentions are included in accounts receivables.

Software Licensing and Hardware Sales: When software licensing and/or hardware functionality are not dependent upon performance of services, the amount of revenue under the arrangement is allocated to the deliverable elements based on prices the Company sells the separate elements, if objectively determinable. If so determinable, the amounts allocated to the software licensing are recognized as revenue at the time of shipment of the software to the customer. Such sales occur when the Company resells third-party software and hardware systems and related peripherals as part of an end-to-end solution to its customers.  The Company considers delivery to occur when the product is shipped and title and risk of loss have passed to the customer.

Consulting Services: Consulting services are comprised of consulting, implementation, software installation, data conversion, building interfaces to allow the software to operate in integrated environments, training and applications. Consulting services are sold on a fixed-fee and a time-and-materials basis, with payment normally due upon achievement of specific milestones. Consulting services revenue is recognized under the completed-contract method as described above.

Maintenance and Support Services: Maintenance and support services consist primarily of fees for providing unspecified software upgrades on a when-and-if-available basis and technical support over a specified term, which is typically twelve months. Maintenance revenues are recognized ratably over the term of the related agreement.

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Concentration of Significant Customers –At March 31, 2013, accounts receivables from one customer accounted for 100% of total accounts receivable.  The Company had two contracts in process at March 31, 2013.

Income Taxes – Provisions for income taxes are based on taxes payable or refundable for the current year and deferred income taxes. Deferred income taxes are provided on differences between the tax bases of assets and liabilities and their reported amounts in the financial statements and on tax carry forwards. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. A valuation allowance is provided against deferred income tax assets when it is not more likely than not that the deferred income tax assets will be realized.

Basic and Diluted Loss Per Share Basic loss per common share is determined by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted loss per common share is calculated by dividing net loss by the weighted-average number of common shares and dilutive common share equivalents outstanding during the period. When dilutive, the incremental potential common shares issuable upon exercise of stock options and warrants are determined by the treasury stock method. There were 100,000 employee stock options and no warrants outstanding during the three months ended March 31, 2013 that were excluded from the computation of diluted earnings (loss) because their effects would have been anti-dilutive.  There were 2,343,679 employee stock options and 622,500 warrants outstanding during the three months ended March 31, 2012 that were excluded from the computation of diluted earnings (loss) because their effects would have been anti-dilutive.

Share-Based Compensation Plan – Stock-based compensation to employees and consultants is recognized as a cost of the services received in exchange for an award of equity instruments and is measured based on the grant date fair value of the award or the fair value of the consideration received, whichever is more reliably measureable. Compensation expense is recognized over the period during which service is required to be provided in exchange for the award (the vesting period).

Contractual Cash Obligations and Commercial Commitments

The Company leased one facility in Providence, Rhode Island under an operating lease.  The lease expired on February 15, 2013.

The Company entered into an agreement with a consultant on February 18, 2011 whereby the Company agreed to pay the consultant a fee based on net revenue received from two potential new software products. The fee would be equal to 5% of the net revenue received, after deducting software licensing and equipment costs from third parties, from two potential contracts and, for a period of five years, any subsequent revenue from reselling the work product that may result from providing software and services under either of the two potential contracts. No fees were paid or accrued under this agreement during the years ended December 31, 2012 or December 31, 2011. In addition, the Company agreed to pay the third party a fee of 7% on any new capital raised that results from their services.

The Company has a $525,000 outstanding non interest bearing note payable to an entity related to an officer of the Company, which is unsecured and due upon demand. Under the terms of the Cogility purchase agreement the liability was paid in full with the proceeds of the escrow account.

During the year ended December 31, 2012 the Company borrowed at total of $885,275 from various related parties to fund operations. The Notes bear interest at 6% per annum, payable quarterly, are unsecured and are due upon demand. Under the terms of the Cogility purchase agreement the liability was paid in full with the proceeds of the escrow account.

At December 31, 2012, the Company had $375,000 of notes payable to related parties that are secured by all the assets of the Company, bear interest at 3% per annum and are due December 31, 2014. The notes were issued with warrants to purchase common stock that resulted in the notes payable being carried at a discount to their face value. Under the terms of the Cogility purchase agreement the liability was paid in full with the proceeds of the escrow account.

In connection with the acquisition of DSTG on February 13, 2012, the Company assumed an $86,000 distribution payable to the former DSTG shareholder. The liability is without interest, due upon demand and unsecured. On July 25, 2012, the terms of the loan were renegotiated such that the loan bears interest at 6% per annum, payable quarterly, and is due upon demand. Under the terms of the Cogility purchase agreement the liability was paid in full with the proceeds of the escrow account.

At February 11, 2013 an officer of the Company advanced the Company $32,500 for short-term working capital needs. The loan is without interest, unsecured and due upon demand. Under the terms of the Cogility purchase agreement the liability was paid in full with the proceeds of the escrow account.

At December 31, 2012, the Company had $520,000 of notes payable to third parties that are secured by all the assets of the Company, bear interest at 3% per annum and are due December 31, 2014. The notes were issued with warrants to purchase common stock that resulted in the notes payable being carried at a discount to their face value. Under the terms of the Cogility purchase agreement the liability was paid in full with the proceeds of the escrow account.

At December 31, 2012, notes payable to a lending company totaled $130,070, are unsecured, non-interest bearing and due on demand. The Company has not imputed interest on the loans; as such imputed interest would not have been material to the accompanying financial statements. Under the terms of the Cogility purchase agreement the liability was paid in full with the proceeds of the escrow account.

On June 13, 2011, a key executive resigned his position and entered into a severance agreement with the Company. On September 16, 2010, we signed a letter agreeing to pay the former executive officer $47,000 in one-time commissions, with payment deferred until 30 days after the closing of a private placement of common stock or debt convertible into common stock in the total amount of at least $2,000,000. Under the severance agreement the former executive officer will receive a one-time bonus of $35,000 and deferred compensation of $18,432 payable upon the completion of a private placement of common stock or debt convertible into common stock in the total amount of at least $2,000,000. The former executive officer was also to be paid additional deferred compensation of $9,662 by September 30, 2011, but this amount was paid on November 3, 2011. In addition, the severance agreement modified the terms of stock options held by the former executive officer for the purchase 66,667 common shares such that the stock options will not expire until June 14, 2012. Stock options for the purchase of 133,334 common shares were forfeited. Under the terms of the Cogility purchase agreement the liability was paid in full with the proceeds of the escrow account.

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On June 24, 2011 an employee resigned and entered into a severance agreement with the Company. Under the severance agreement, payment of $8,224 of vacation pay was deferred and to be paid the earlier of the completion of a $2,000,000 private placement offering or September 23, 2011. In addition, the severance agreement modified the terms of stock options held by the former employee for the purchase of 133,000 common shares such that the stock options will not expire until June 24, 2012. Stock options for the purchase of 67,000 common shares were forfeited. Under the terms of the Cogility purchase agreement the liability was paid in full with the proceeds of the escrow account.

One of Cogility's employees claims that he has filed a wage claim against Cogility for $302,000 with the California Labor Board. It is the Company's understanding that the California Labor Board declined to consider this claim, and advised the Cogility employee that he should more appropriately pursue his wage claim in the courts. If the Cogility employee pursues his wage claim in the courts, the Company intends to vigorously defend against such claim. The range of potential loss from this claim is up to $302,000 and the Company believes it has adequately provided for this potential claim in the accompanying consolidated financial statements.

The Company agreed to indemnify Drumright for losses caused by breaches of the Company’s representations and warranties. In March 2013, Drumright notified the Company of the existence of a second amendment to a license agreement between Cogility and one of its customers that was effective April 2007. Despite the fact that Acquired Sales' management was not aware of the existence of the second amendment until Drumright’s notification in March 2013, in the event that Drumright determines that such second amendment to the license agreement will result in losses to Drumright, Drumright could make a claim for indemnification against the Company or otherwise could file a lawsuit against Acquired Sales. The Company estimates that the range of potential loss from this claim is up to $3,200,000 and affected the amount of gain the Company recognized from the sale of Cogility.

The Company is subject to other legal proceedings, claims, and litigation arising in the ordinary course of business. The Company defends itself vigorously against any such claims. Although the outcome of these other matters is currently not determinable, management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

Off Balance Sheet Arrangements – We have no off-balance sheet arrangements.

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## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a "smaller reporting company" as defined by Item 10 of Regulation S-K, the Company is not required to provide information required by this Item.

## ITEM 4. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act as of the end of the period covered by this Quarterly Report on Form 10-Q. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on that evaluation, our chief executive officer and chief financial officer concluded that, as of March 31, 2013, our disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules, regulations and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

### Changes in Internal Control over Financial Reporting

Our management, with the participation of the chief executive officer and chief financial officer, has concluded there were no significant changes in our 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 control over financial reporting.

# PART II — OTHER INFORMATION

## Item 1. Legal Proceedings.

To the best knowledge of the officers and directors, the Company is not a party to any legal proceeding or litigation.

## Item 1A. Risk Factors.

Not required.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None; not applicable.

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Item 3. Defaults Upon Senior Securities.

None; not applicable.

Item 4. Mine Safety Disclosures.

None, not applicable.

Item 5. Other Information.

None; not applicable.

Item 6. Exhibits.

The following Exhibits have been previously filed in the below referenced filings or have been attached hereto, and in any case, as is stated on the cover of this Report, all of the below Exhibits are incorporated herein by reference.

| | |
|---|---|
| Form 10-SB | March 23, 2007 |
| 3.1 | Articles of Incorporation dated December 12, 1985 |
| 3.2 | Amended Articles of Incorporation Dated July 1992 |
| 3.3 | Amended Articles of Incorporation Dated November 1996 |
| 3.4 | Amended Articles of Incorporation Dated June 1999 |
| 3.5 | Amended Articles of Incorporation Dated January 25, 2006 |
| 3.6 | Amended Bylaws |
| | |
| Form 8-K | August 2, 2007 |
| 5.01 | Shareholder Agreement |
| | |
| Form 10Q | May 18, 2009 |
| 10.1 | Private Merchant Banking Agreement-Anniston Capital, Inc. |
| 10.2 | Warrant Agreement #1-Anniston Capital, Inc. |
| 10.3 | Warrant Agreement #2-Anniston Capital, Inc. |
| 10.4 | $100,000 Promissory Note – December 1, 2007 |
| 10.5 | $10,000 Promissory Note – January 30, 2008 |
| 10.6 | $10,000 Promissory Note – November 9, 2008 |
| | |
| Form 10-K | August 20, 2010 |
| 10.7 | $4,000 Promissory Note – April 19, 2010 |
| | |
| Form 8-K | November 5, 2010 |
| 10.1 | Letter of Intent Agreement Cogility Software dated November 4, 2010 |
| 99.1 | Press Release |

| | |
|---|---|
| Form 10-K | December 17, 2010 |
| 10.8 | $20,000 Promissory Note – October 12, 2010 |
| | |
| Form 10-K | March 31, 2011 |
| 4.1 | Form of Note 3% |
| 4.2 | Form of Warrant |
| 10.10 | Subscription Agreement |

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| Schedule DEF 14-C | August 9, 2011 |
| 10.11 | The Johns Hopkins University Applied Physics Laboratory Firm Fixed Price-Time And Material Contract No. 961420, dated October 20, 2009 (filed as Exhibit (E)(i) thereto) |
| 10.12 | The Analysis Corporation Task Order Subcontract Agreement, dated January 4, 2010 (filed as Exhibit (E)(ii) thereto) |
| 10.13 | Defense & Security Technology Group, LLC, Program Budget & Asset Management Tool Proof of Concept Pilot, dated June 27, 2011 (filed as Exhibit (E)(iii) thereto) |
| 10.14 | Defense & Security Technology Group, LLC, Command Information Center – Data Integration Proof of Concept, dated June 27, 2011 (filed as Exhibit (E)(iv) thereto) |
| | |
| Form 8-K | October 4, 2011 |
| 10.15 | Agreement and Plan of Merger |
| 10.16 | NAVAIR PMA 265 contract, in regard to a Program Budget & Asset Management Tool Proof of Concept Pilot, dated July 15, 2011 |
| 10.17 | NAVAIR 4.2 Cost Performance contract, in regard to Command Information Center - Data Integration (CIC-DI) Proof of Concept, dated July 15, 2011 |
| 10.18 | Sotera Defense Solutions, Inc. subcontract number SOTERA-SA-FY11-040, dated June 20, 2011 |
| 10.19 | $4,000 Promissory Note – September 13, 2011 |
| 10.20 | CACI Prime Contract No.: W15P7T-06-D-E402 Prime Delivery Order No.: 0060, dated August 24, 2011 |
| 10.21 | $4,000 Promissory Note – September 30, 2012 |
| 14.1 | [Proposed] Code of Business Conduct and Ethics |
| | |
| 10-Q | May 21, 2012 |
| 10.22 | Agreement dated as of October 17, 2011, by and among Deborah Sue Ghourdjian Separate Property Trust, Matthew Ghourdjian, Daniel F. Terry, Jr., Roberti Jacobs Family Trust, Acquired Sales Corp., Vincent J. Mesolella, and Minh Le |
| | |
| 10-Q | November 13, 2012 |
| 10.23 | Firm Fixed Price subcontract; Defense & Security Technology Group, Inc. subsidiary and CAS, Inc., dated September 19, 2012 |
| 10.24 | Firm-Fixed-Price, Level-of-Effort, IDIQ Subcontract; Cogility subsidiary andBooz Allen Hamilton, dated November 1, 2012 |

| | |
|---|---|
| 8-K | January 16, 2013 |
| 10.25 | Stock Purchase Agreement dated January 11, 2013 |
| 99.1 | Press Release |
| | |
| 8-K/A | February 12, 2013 |
| 10.26 | Amendment No. 1 Stock Purchase Agreement |
| | |
| This 10-Q | March 29, 2013 |
| 31.1 | Certification of principal executive officer and principal financial officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 executed by Gerard M. Jacobs |
| 32.1 | Certification of principal executive officer and principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 executed by Gerard M. Jacobs |

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| 101.INS | XBRL Instance Document* |
| 101.PRE. | XBRL Taxonomy Extension Presentation Linkbase* |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase* |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase* |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase* |
| 101.SCH | XBRL Taxonomy Extension Schema* |

*Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed “furnished” and not “filed” or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, or deemed “furnished” and not “filed” for purposes of Section 18 of the Securities and Exchange Act of 1934, and otherwise are not subject to liability under these sections.

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## SIGNATURES

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

Dated: May 15, 2013

ACQUIRED SALES CORP.

By: /s/ Gerard M. Jacobs
Gerard M. Jacobs
Chief Executive Officer