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

FORM 10-Q

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

For the quarterly period ended March 31, 2017

[ ] 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: 001-35814

Imprimis Pharmaceuticals, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**45-0567010**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
12264 El Camino Real, Suite 350 San Diego, CA	**92130**
(Address of principal executive offices)	(Zip code)

(858) 704-4040
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company.

Large accelerated filer	[ ]	Accelerated filer	[ ]
Non-accelerated filer	[ ] (Do not check if a smaller reporting company)	Smaller reporting company	[X]
		Emerging growth company	[ ]

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.[ ]

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

As of May 9, 2017, 20,065,415 shares of the registrant's common stock, $0.001 par value, were outstanding.

IMPRIMIS PHARMACEUTICALS, INC.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

IMPRIMIS PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	March 31, 2017 (unaudited)	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 7,396	$ 8,853
Restricted cash and short-term investments	200	200
Accounts receivable, net	3,036	2,921
Inventories	2,044	1,841
Prepaid expenses and other current assets	925	938
Total current assets	13,601	14,753
Property, plant and equipment, net	7,103	7,295
Intangible assets, net	2,948	2,972
Goodwill	2,227	2,227
TOTAL ASSETS	$ 25,879	$ 27,247
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$ 3,920	$ 3,538
Accrued payroll and related liabilities	980	1,638
Deferred revenue and customer deposits	8	91
Current portion of deferred acquisition obligation and accrued interest	209	207
Current portion of note payable, net of unamortized debt discount	6,187	3,973
Current portion of capital lease obligations, net of unamortized discount	491	458
Total current liabilities	11,795	9,905
Capital lease obligations, net of current portion and unamortized discount	1,182	1,318
Deferred acquisition obligation, net of current portion	-	52
Accrued expenses, net of current portion	667	667
Deferred tax liability	908	936
Note payable and paid-in-kind interest, net of unamortized debt discount and current portion	6,010	7,937
TOTAL LIABILITIES	20,562	20,815
STOCKHOLDERS' EQUITY		
Common stock, $0.001 par value, 90,000,000 shares authorized, 19,965,415 and 18,627,915 shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively	20	19
Additional paid-in capital	87,154	83,264
Accumulated deficit	(81,857)	(76,851)
TOTAL STOCKHOLDERS' EQUITY	5,317	6,432
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 25,879	$ 27,247

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

IMPRIMIS PHARMACEUTICALS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except for share and per share data)

	For the Three Months Ended March 31, 2017	For the Three Months Ended March 31, 2016
Revenues:		
Sales, net	$ 6,089	$ 4,381
License revenues	8	-
Total revenues	6,097	4,381
Cost of sales	(3,357)	(2,249)
Gross profit	2,740	2,132
Operating expenses:		
Selling and marketing	2,440	1,900
General and administrative	4,371	3,940
Research and development	160	46
Total operating expenses	6,971	5,886
Loss from operations	(4,231)	(3,754)
Other income (expense):		
Interest expense, net	(788)	(629)
Change in fair value of derivative liabilities	-	(113)
Loss on sale of Imprimis TX assets	(15)	-
Total other expense, net	(803)	(742)
Loss before income taxes	(5,034)	(4,496)
Income tax benefit, net	28	-
Net loss	$ (5,006)	$ (4,496)
Basic and diluted net loss per share of common stock	$ (0.26)	$ (0.43)
Weighted average number of shares of common stock outstanding, basic and diluted	18,927,194	10,407,430

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

IMPRIMIS PHARMACEUTICALS, INC.
UNAUDTIED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the Three Months Ended March 31, 2017	For the Three Months Ended March 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (5,006)	$ (4,496)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of furniture and equipment	345	83
Amortization of intangible assets	90	91
Deferred income taxes	(28)	-
Amortization of debt issuance costs and discount	336	262
Paid-in-kind interest added to principal of note payable	-	51
Loss on sale of Imprimis TX assets	15	-
Change in fair value of derivative liabilities	-	113
Stock-based compensation	950	1,064
Changes in assets and liabilities:		
Accounts receivable	(115)	(103)
Inventories	(203)	179
Prepaid expenses and other current assets	13	7
Accounts payable and accrued expenses	364	996
Accrued payroll and related liabilities	(658)	(533)
Deferred revenue and customer deposits	(83)	(15)
NET CASH USED IN OPERATING ACTIVITIES	(3,980)	(2,301)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in patent and trademark assets	(66)	(56)
Purchases of property, plant and equipment	(150)	(2,367)
NET CASH USED IN INVESTING ACTIVITIES	(216)	(2,423)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligations	(152)	(7)
Net proceeds from public equity offering	2,941	11,088
Payments on Park deferred acquisition obligation	(50)	(48)
Proceeds from convertible note payable, net of issuance costs	-	2,772
Net proceeds from exercise of warrants and stock options, net of taxes remitted for RSU's	-	55
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,739	13,860
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,457)	9,136
CASH AND CASH EQUIVALENTS, beginning of period	8,853	2,685
CASH AND CASH EQUIVALENTS, end of period	$ 7,396	$ 11,821
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	$ -	$ 9
Cash paid for interest	$ 428	$ 291
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Fair value of embedded conversion feature recorded as debt discount and derivative liability	$ -	$ 2,322
Reclassification of the fair value of the embedded conversion feature derivative liability to additional paid-in capital upon closing of the public equity offering	$ -	$ 2,646
Reclassification of the fair value of the LSAF warrant from additional paid-in capital to derivative liability	$ -	$ 675
Reclassification of the fair value of the LSAF warrant derivative liability to additional paid-in capital upon closing of the public equity offering	$ -	$ 464
Issuance of stock options for consulting services included in accounts payable and accrued expenses	$ -	$ 23
Purchase of property, plant and equipment included in accounts payable and accrued expenses	$ 18	$ 1,148

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

NOTE 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Company and Background

Imprimis Pharmaceuticals, Inc. (together with its subsidiaries, unless the context indicates or otherwise requires, the "Company" or "Imprimis") is a pharmaceutical company dedicated to producing and dispensing high quality innovative medications in all 50 states. The Company's unique business model increases patient access and affordability to many critical medicines. Headquartered in San Diego, California, Imprimis owns and operates production and dispensing facilities located in California, New Jersey and Pennsylvania.

Basis of Presentation

Imprimis has prepared the accompanying unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for audited financial statements. In the opinion of management, all adjustments (consisting of only normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017 or for any other period. For further information, refer to the Company's audited consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following represents an update for the three months ended March 31, 2017 to the significant accounting policies described in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Liquidity

The Company has incurred significant operating losses and negative cash flows from operations since its inception. The Company incurred net losses of $5,006 and $4,496 for the three months ended March 31, 2017 and 2016, respectively, and had an accumulated deficit of $81,857 and $76,851 as of March 31, 2017 and December 31, 2016, respectively. In addition, the Company used cash in operating activities of $3,980 and $2,301 for the three months ended March 31, 2017 and 2016, respectively.

While there is no assurance, the Company believes its existing cash resources and restricted cash of approximately $7,596 at March 31, 2017, will be sufficient to sustain the Company's planned level of operations for at least the next twelve months. However, estimates of operating expenses and working capital requirements could be incorrect, and the Company could use its cash resources faster than anticipated. Further, some or all of the ongoing or planned activities may not be successful and could result in further losses.

The Company may seek to increase liquidity and capital resources by one or more measures, to the extent necessary. These measures may include, but are not limited to, the following: obtaining financing through the issuance of equity, debt, or convertible securities; and working to increase revenue growth through pharmacy sales. There is no guarantee that the Company will be able to obtain capital when needed on terms it deems as acceptable, or at all.

Revenue Recognition and Deferred Revenue

The Company recognizes revenues when all of the following criteria have been met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured. The Company's revenues consist of sales of certain of the Company's proprietary compounded drug formulations and non-proprietary formulations and products.

Product Revenues

Determination of criteria (3) and (4) is based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts. Estimated returns and allowances and other adjustments are provided for in the same period during which the related sales are recorded. The Company will defer any revenues received for a product that has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered and no refund will be required.

License Revenues

License arrangements may consist of non-refundable upfront license fees, data transfer fees, research reimbursement payments, exclusive license rights to patented or patent pending compounds, technology access fees, and various performance or sales milestones. These arrangements can be multiple element arrangements.

Non-refundable fees that are not contingent on any future performance by the Company and require no consequential continuing involvement on the part of the Company are recognized as revenue when the license term commences and the licensed data, technology, compounded drug preparation and/or other deliverable is delivered. Such deliverables may include physical quantities of compounded drug preparations, design of the compounded drug preparations and structure-activity relationships, the conceptual framework and mechanism of action, and rights to the patents or patent applications for such compounded drug preparations. The Company defers recognition of non-refundable fees if it has continuing performance obligations without which the technology, right, product or service conveyed in conjunction with the non-refundable fee has no utility to the licensee and that are separate and independent of the Company's performance under the other elements of the arrangement. In addition, if the Company's continued involvement is required, through research and development services that are related to its proprietary know-how and expertise of the delivered technology or can only be performed by the Company, then such non-refundable fees are deferred and recognized over the period of continuing involvement. Guaranteed minimum annual royalties are recognized on a straight-line basis over the applicable term.

Basic and Diluted Net Loss per Common Share

Basic net loss per common share is computed by dividing net loss attributable to common stockholders for the period by the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing the net loss attributable to common stockholders for the period by the weighted average number of common and common equivalent shares, such as stock options and warrants, outstanding during the period.

Basic and diluted net loss per share is computed using the weighted average number of shares of common stock outstanding during the period. Common stock equivalents (using the treasury stock or "if converted" method) from deferred acquisition obligations, convertible note payable, stock options, unvested restricted stock units ("RSUs") and warrants were 9,372,707 and 4,134,146 at March 31, 2017 and 2016, respectively, and are excluded from the calculation of diluted net loss per share for all periods presented because the effect is anti-dilutive. Included in the basic and diluted net loss per share calculation were RSUs awarded to directors that had vested, but the issuance and delivery of the shares are deferred until the director resigns. The number of shares underlying these vested RSUs at March 31, 2017 and 2016 was 92,933 and 59,197, respectively.

The following table shows the computation of basic and diluted net loss per share of common stock for the three months ended March 31, 2017 and 2016:

	For the Three Months Ended March 31, 2017	For the Three Months Ended March 30, 2016
Numerator – net loss	$ (5,006)	$ (4,496)
Denominator – weighted average number of shares outstanding, basic and diluted	18,927,194	10,407,430
Net loss per share, basic and diluted	$ (0.26)	$ (0.43)

Recently Adopted Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which addresses certain aspects of accounting for share-based payment award transactions. The Company adopted this standard on January 1, 2017. The adoption did not have a material impact on the Company's financial position, results of operations and cash flows. Prior periods were not recast.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory*, which requires entities to measure most inventory "at the lower of cost and net realizable value ("NRV")," thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. Under the new guidance, inventory is "measured at the lower of cost and net realizable value," which eliminates the need to determine replacement cost and evaluate whether it is above the ceiling (NRV) or below the floor (NRV less a normal profit margin). The guidance defines NRV as the "estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation." The Company adopted this standard on January 1, 2017. The adoption did not have a material impact on the Company's financial position, results of operations and cash flows. Prior periods were not recast.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers.* This updated guidance supersedes the current revenue recognition guidance, including industry-specific guidance. The updated guidance introduces a five-step model to achieve its core principal of the entity recognizing revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The updated guidance is effective for interim and annual periods beginning after December 15, 2016, and early adoption is not permitted. In July 2015, the FASB decided to delay the effective date of ASU 2014-09 until December 15, 2017. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. The Company is currently evaluating which transition method it will adopt and the expected impact of the updated guidance, but does not believe the adoption of the updated guidance will have a significant impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires the lease rights and obligations arising from lease contracts, including existing and new arrangements, with terms more than 12 months to be recognized as assets and liabilities on the balance sheet. Recognition, measurement and presentation of expenses will depend on classification as a finance or operating lease. The amendments also require certain quantitative and qualitative disclosures about leasing arrangements. ASU 2016-02 is effective for reporting periods beginning after December 15, 2018 with early adoption permitted. While the Company is still evaluating ASU 2016-02, the Company expects the adoption of ASU 2016-02 to have a material effect on the Company's consolidated financial condition due to the recognition of the lease rights and obligations as assets and liabilities. The Company does not expect ASU 2016-02 to have a material effect on the Company's results of operations and cash flows.

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other*. This guidance simplifies the accounting for goodwill impairment for all entities by requiring impairment charges to be based on the first step in the current two-step impairment test under Accounting Standards Codification ("ASC") 350. The updated standard eliminates the requirement to calculate a goodwill impairment charge using Step 2. If a reporting unit's carrying amount exceeds its fair value, an entity will record an impairment charge based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective for reporting periods beginning after December 31, 2019 on a prospective basis, and early adoption is permitted. The Company does not expect ASU 2017-04 to have a material effect on the Company's financial position, results of operations and cash flows.

NOTE 3. RESTRICTED CASH

The restricted cash at March 31, 2017 and December 31, 2016 consisted of funds held in a money market account. At March 31, 2017 and December 31, 2016, the restricted cash was recorded at amortized cost, which approximates fair value.

At March 31, 2017 and December 31, 2016, the funds held in a money market account of $200 were classified as a current asset. The money market account funds are required as collateral as additional security for the Company's New Jersey facility lease.

NOTE 4. INVENTORIES

Inventories are comprised of finished compounded formulations, over-the-counter and prescription retail pharmacy products, commercial pharmaceutical products, related laboratory supplies and active pharmaceutical ingredients. The composition of inventories as of March 31, 2017 and December 31, 2016 was as follows:

	March 31, 2017	December 31, 2016
Raw materials	$ 765	$ 669
Finished goods	1,279	1,172
Total inventories	$ 2,044	$ 1,841

NOTE 5. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consisted of the following:

	March 31, 2017	December 31, 2016
Prepaid insurance	$ 182	$ 315
Other prepaid expenses	637	517
Deposits and other current assets	106	106
Total prepaid expenses and other current assets	$ 925	$ 938

NOTE 6. INTANGIBLE ASSETS AND GOODWILL

The Company's intangible assets at March 31, 2017 consisted of the following:

	Amortization periods (in years)	Cost	Accumulated amortization	Impairment	Net Carrying value
Patents	17-19 years	$ 259	$ (8)	$ -	$ 251
Trademarks	Indefinite	244	-	-	244
Customer relationships	3-15 years	2,998	(619)	(15)	2,364
Trade name	5 years	16	(7)	(1)	8
Non-competition clause	3-4 years	294	(207)	(20)	67
State pharmacy licenses	25 years	45	(3)	(28)	14
		$ 3,856	$ (844)	$ (64)	$ 2,948

Amortization expense for intangible assets for the three months ended March 31 was as follows:

	For the Three Months Ended March 31, 2017	For the Three Months Ended March 31, 2016
Patents	$ 1	$ -
Customer relationships	65	66
Trade name	1	1
Non-competition clause	22	23
State pharmacy licenses	1	1
	$ 90	$ 91

Estimated future amortization expense for the Company's intangible assets at March 31, 2017 is as follows:

Remainder of 2017	$ 271
2018	221
2019	217
2020	215
2021	215
Thereafter	1,809
	$ 2,948

There have been no changes in the carrying value of the Company's goodwill during the three months ended March 31, 2017.

NOTE 7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following:

	March 31, 2017	**December 31, 2016**
Accounts payable	$ 3,382	$ 2,999
Deferred rent	396	412
Accrued interest (see Note 8)	142	116
Accrued exit fee for note payable (see Note 8)	667	667
Building lease liability	-	11
Total accounts payable and accrued expenses	4,587	4,205
Less: Current portion	(3,920)	(3,538)
Non-current total accrued expenses	$ 667	$ 667

NOTE 8. DEBT

At March 31, 2017, future minimum payments under the Company's notes payable were as follows:

	Amount
Remainder of 2017	$ 6,074
2018	8,905
Total minimum payments, including interest	14,979
Less: amount representing interest payments	(1,647)
Notes payable, gross	13,332
Less: unamortized discount	(1,135)
	12,197
Less: current portion, net of unamortized discount	(6,187)
Note payable, net of current portion and unamortized debt discount	$ 6,010

NOTE 9. CAPITAL LEASE OBLIGATION

At March 31, 2017, future payments under the Company's capital leases were as follows:

	Amount
Remainder of 2017	$ 580
2018	773
2019	751
Total minimum lease payments, including interest	2,104
Less: amount representing interest payments	(202)
Present value of future minimum lease payments	1,902
Less: unamortized discount	(229)
	1,673
Less: current portion, net of unamortized discount	(491)
Capital lease obligation net of current portion and unamortized discount	$ 1,182

NOTE 10. STOCKHOLDERS' EQUITY AND STOCK-BASED COMPENSATION

Common Stock

In March, 2017, we entered into securities purchase agreements with two accredited investors, which provided for the sale by the Company of 1,312,500 shares of its common stock, at a price of $2.40 per share (the "Registered Offering"). We received net proceeds of $2,941 after deducting the underwriter discount of 6% of the gross proceeds from the Registered Offering and other related expenses.

In November 2015, the Company entered into a Controlled Equity Offering^{SM} sales agreement (the "Sales Agreement") with Cantor Fitzgerald & Co., as agent ("Cantor Fitzgerald"), pursuant to which the Company may offer and sell, from time to time through Cantor Fitzgerald, shares of our common stock having an aggregate offering price as set forth in the Sales Agreement and a related prospectus supplement filed with the Securities and Exchange Commission. The Company agreed to pay Cantor Fitzgerald a cash commission of 3.0% of the aggregate gross proceeds from each sale of shares under the Sales Agreement. The Company did not sell any shares of common stock under the Sales Agreement during the three months ended March 31, 2017.

In March 2017, the Company issued 25,000 shares of its restricted common stock, with a fair value of $60, as payment for investor relations related services.

During the three months ended March 31, 2017, 12,688 shares of the Company's common stock underlying RSUs issued to directors vested, but the issuance and delivery of these shares are deferred until the director resigns.

Stock Option Plan

On September 17, 2007, the Company's Board of Directors and stockholders adopted the Company's 2007 Incentive Stock and Awards Plan, which was subsequently amended on November 5, 2008, February 26, 2012, July 18, 2012, May 2, 2013 and September 27, 2013 (as amended, the "Plan"). As of March 31, 2017, the Plan provides for the issuance of a maximum of 5,000,000 shares of the Company's common stock. The purpose of the Plan is to attract and retain directors, officers, consultants, advisors and employees whose services are considered valuable, to encourage a sense of proprietorship and to stimulate an active interest of such persons in the Company's development and financial success. Under the Plan, the Company is authorized to issue incentive stock options intended to qualify under Section 422 of the Internal Revenue Code, non-qualified stock options, restricted stock units and restricted stock. The Plan is administered by the Compensation Committee of the Company's Board of Directors.

Stock Options

A summary of stock option activity under the Plan for the three months ended March 31, 2017 is as follows:

	Number of shares	Weighted Avg. Exercise Price	Weighted Avg. Remaining Contractual Life	Aggregate Intrinsic Value
Options outstanding - January 1, 2017	2,013,313	$ 6.20		
Options granted	319,000	$ 2.25		
Options exercised	-	$ -		
Options cancelled/forfeit	(101,803)	$ 4.97		
Options outstanding - March 31, 2017	2,230,510	$ 5.69	6.68	$ 981,270
Options exercisable	766,870	$ 6.29	6.39	$ 243,357
Options vested and expected to vest	2,086,377	$ 5.71	6.66	$ 907,479

The aggregate intrinsic value in the table above represents the total pre-tax amount of the proceeds, net of exercise price, which would have been received by option holders if all option holders had exercised and immediately sold all options with an exercise price lower than the market price on March 31, 2017, based on the closing price of the Company's common stock of $4.17 on that date.

During the three months ended March 31, 2017, the Company granted stock options to certain employees. The stock options were granted with an exercise price equal to the current market price of the Company's common stock, as reported by the securities exchange on which the common stock was then listed, at the grant date and have contractual terms of 10 years. Vesting terms for options granted to employees and consultants during the three months ended March 31, 2017 typically included one of the following vesting schedules: 25% of the shares subject to the option vest and become exercisable on the first anniversary of the grant date and the remaining 75% of the shares subject to the option vest and become exercisable quarterly in equal installments thereafter over three years; or 100% vesting associated with the provision or completion of services provided under contracts with consultants. Certain option awards provide for accelerated vesting if there is a change in control (as defined in the Plan) and in the event of certain modifications to the option award agreement.

The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option pricing model. The expected volatility is based on the historical volatilities of the common stock of the Company and comparable publicly traded companies based on the Company's belief that it currently has limited relevant historical data regarding the volatility of its stock price on which to base a meaningful estimate of expected volatility. The expected term of options granted to employees and directors was determined in accordance with the "simplified approach," as the Company has limited, relevant, historical data on employee exercises and post-vesting employment termination behavior. The expected risk-free interest rate is based on the U.S. Treasury yield for a period consistent with the expected term of the option in effect at the time of the grant. The financial statement effect of forfeitures is estimated at the time of grant and revised, if necessary, if the actual effect differs from those estimates. For option grants to employees and directors, the Company assigns a forfeiture factor of 10%. These factors could change in the future, which would affect the determination of stock-based compensation expense in future periods. Utilizing these assumptions, the fair value is determined at the date of grant.

The table below illustrates the fair value per share determined by the Black-Scholes-Merton option pricing model with the following assumptions used for valuing options granted to employees:

	2017
Weighted-average fair value of options granted	$ 1.96
Expected terms (in years)	5.81 - 6.11
Expected volatility	117%
Risk-free interest rate	1.90 - 1.92%
Dividend yield	-

The following table summarizes information about stock options outstanding and exercisable at March 31, 2017:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$2.23 - $2.60	464,000	8.49	$ 2.31	125,000	$ 2.40
$3.74 - $4.50	608,623	8.48	$ 3.99	170,257	$ 4.07
$5.49 - $6.36	110,100	6.43	$ 5.97	101,346	$ 5.97
$6.64 - $8.99	1,042,757	4.86	$ 7.98	365,237	$ 8.23
$42.80	5,030	3.87	$ 42.80	5,030	$ 42.80
$2.23 - $42.80	2,230,510	6.68	$ 5.69	766,870	$ 6.29

As of March 31, 2017, there was approximately $3,460 of total unrecognized compensation expense related to unvested stock options granted under the Plan. That expense is expected to be recognized over the weighted-average remaining vesting period of 3.0 years. The stock-based compensation expense for all stock options was $449 during the three months ended March 31, 2017, respectively.

Restricted Stock Units

RSU awards are granted subject to certain vesting requirements and other restrictions, including performance and market-based vesting criteria. The grant date fair value of the RSUs, which has been determined based upon the market value of the Company's common stock on the grant date, is expensed over the vesting period of the RSUs. Unvested portions of RSUs issued to consultants are remeasured on an interim basis until vesting criteria is met.

A summary of the Company's RSU activity and related information for the three months ended March 31, 2017 is as follows:

	Number of RSUs	Weighted Average Grant Date Fair Value
RSUs unvested - January 1, 2017	1,292,876	$ 2.43
RSUs granted	-	
RSUs vested	(12,688)	$ 3.94
RSUs cancelled/forfeit	-	
RSUs unvested at March 31, 2017	1,280,188	$ 2.42

As of March 31, 2017, the total unrecognized compensation expense related to unvested RSUs was approximately $1,898, which is expected to be recognized over a weighted-average period of 1.6 years, based on estimated and actual vesting schedules of the applicable RSUs. The stock-based compensation for RSUs during the three months ended March 31, 2017 was $441.

Warrants

From time to time, the Company issues warrants to purchase shares of the Company's common stock to investors, lenders, underwriters, settlement agreements and other non-employees for services rendered or to be rendered in the future.

A summary of warrant activity for the three months ended March 31, 2017 is as follows:

	Number of Shares Subject to Warrants Outstanding	Weighted Avg. Exercise Price
Warrants outstanding - January 1, 2017	5,748,829	$ 1.91
Granted	-	
Exercised	-	
Expired	-	
Warrants outstanding and exercisable - March 31, 2017	5,748,829	$ 1.91
Weighted average remaining contractual life of the outstanding warrants in years - March 31, 2017	2.84	

A list of the warrants outstanding as of March 31, 2017 is included in the following table:

	Warrants Outstanding			Warrants Exercisable	
Warrant Series	Issue Date	Warrants Outstanding	Exercise Price	Warrants Exercisable	Expiration Date
Lender warrants	5/11/2015	125,000	$ 1.79	125,000	5/11/2025
Underwriter warrants	2/7/2013	55,688	$ 5.25	55,688	2/7/2018
Settlement warrants	8/16/2016	40,000	$ 3.75	40,000	8/16/2021
Warrants issued to investor relations consultant	7/19/2013	60,000	$ 8.50	60,000	7/19/2018
Placement Agent Warrants	12/27/2016	210,313	$ 1.79	-	12/27/2019
PIPE Investor Warrants	12/27/2016	5,257,828	$ 1.79	-	12/27/2019
		5,748,829	$ 1.91	280,688	

The Company recorded stock-based compensation related to equity instruments granted to employees, directors and consultants as follows:

	For the Three Months Ended March 31, 2017	For the Three Months Ended March 30, 2016
Employees - selling and marketing	$ 135	$ 120
Employees - general and administrative	700	885
Directors - general and administrative	55	59
Consultants - selling and marketing	60	-
Total	$ 950	$ 1,064

NOTE 11. COMMITMENTS AND CONTINGENCIES

Legal

General and Other

In the ordinary course of business, the Company may face various claims brought by third parties and the Company may, from time to time, make claims or take legal actions to assert the Company's rights, including intellectual property disputes, contractual disputes and other commercial disputes. Any of these claims could subject the Company to litigation. Management believes the outcomes of currently pending claims are not likely to have a material effect on the Company's consolidated financial position and results of operations.

Indemnities

In addition to the indemnification provisions contained in the Company's charter documents, the Company generally enters into separate indemnification agreements with each of the Company's directors and officers. These agreements require the Company, among other things, to indemnify the director or officer against specified expenses and liabilities, such as attorneys' fees, judgments, fines and settlements, paid by the individual in connection with any action, suit or proceeding arising out of the individual's status or service as the Company's director or officer, other than liabilities arising from willful misconduct or conduct that is knowingly fraudulent or deliberately dishonest, and to advance expenses incurred by the individual in connection with any proceeding against the individual with respect to which the individual may be entitled to indemnification by the Company. The Company also indemnifies its lessors in connection with its facility leases for certain claims arising from the use of the facilities. These indemnities do not provide for any limitation of the maximum potential future payments the Company could be obligated to make. Historically, the Company has not incurred any payments for these obligations and, therefore, no liabilities have been recorded for these indemnities in the accompanying condensed consolidated balance sheets.

Asset Purchase, License and Commission Agreements

The Company has acquired intellectual property rights related to certain proprietary innovations from certain inventors (the "Inventors") through multiple asset purchase, license and commission agreements. In consideration for the acquisition of the intellectual property rights, the Company is obligated to make certain milestone payments related to patent and regulatory filings to the Inventors and also make payments, in one instance a minimum annual amount, based on certain percentages of revenues and net sales amounts, as defined within the respective agreements. During the three months ended March 31, 2017 and 2016, the Company recognized $21 and $361, respectively, in expense amounts related to these agreements. Such amounts are included in cost of sales and sales and marketing expenses in the accompanying condensed consolidated statements of operations.

Imprimis TX Lease

During the three months ended March 31, 2017, the Company entered into a stock purchase agreement (the "SPA") with Livernois & London, LLC ("Livernois"). Pursuant to the terms of the SPA, the Company sold to Livernois one hundred percent (100%) of the issued and outstanding shares of common stock of its Texas based subsidiary, ImprimisRx TX, Inc dba ImprimisRx ("Imprimis TX"). The Company had previously ceased operations of Imprimis TX in 2016 and the SPA did not transfer to Livernois any of the Company's rights to intellectual property, products, clients, nor any of its existing business operations. As consideration for the purchase of Imprimis TX, Livernois paid the Company $10 and the Company assigned, and Livernois assumed, the remaining lease obligation totaling $113 for the its Texas based facility. The Company recorded a $15 loss from the sale of Imprimis TX, which is included in the accompanying condensed consolidated statements of operations.

NOTE 12. SEGMENT INFORMATION AND CONCENTRATIONS

The Company operates its business on the basis of a single reportable segment, which is the business of developing proprietary drug therapies and providing such therapies through sterile and non-sterile pharmaceutical compounding services. The Company's chief operating decision-maker is the Chief Executive Officer, who evaluates the Company as a single operating segment.

The Company categorizes revenues by geographic area based on selling location. All operations are currently located in the U.S.; therefore, total revenues for 2017 and 2016 are attributed to the U.S. All long-lived assets at March 31, 2017 and December 31, 2016 are located in the U.S.

The Company sells its compounded formulations to a large number of customers. Less than 10% of the Company's total pharmacy sales were derived from a single customer for the three months ended March 31, 2017 and 2016.

The Company receives its active pharmaceutical ingredients from three main suppliers. These suppliers collectively accounted for 93% and 63%, respectively, of active pharmaceutical ingredient purchases during the three months ended March 31, 2017 and 2016.

NOTE 13. SUBSEQUENT EVENTS

The Company has performed an evaluation of events occurring subsequent to March 31, 2017 through the filing date of this Quarterly Report. Based on its evaluation, nothing other than the events described below needs to be disclosed.

In April 2017, the Company issued 100,000 shares of common stock as a result of warrant exercises. The Company received cash proceeds of $179 upon the exercise of warrants to purchase the same number of shares of common stock with an exercise price of $1.79.

Klarity License Agreement – Related Party

In April 2017, the Company entered into a license agreement (the "Klarity License Agreement") with Richard L. Lindstrom, M.D., a member of its Board of Directors. Pursuant to the terms of the Klarity License Agreement, the Company licensed certain intellectual property and related rights from Dr. Lindstrom to develop, formulate, make, sell, and sub-license the topical ophthalmic solution Klarity used to protect and rehabilitate the ocular surface (the "Klarity Product").

Under the terms of the Klarity License Agreement, the Company is required to make royalty payments to Dr. Lindstrom ranging from three percent (3%) to six percent (6%) of net sales, dependent upon the final formulation of the Klarity Product sold. In addition, the Company is required to make certain milestone payments to Dr. Lindstrom including: (i) an initial payment of $50 upon execution of the Klarity License Agreement, (ii) a second payment of $50 following the first $50 in net sales of the Klarity Product; and (iii) a final payment of $50 following the first $100 in net sales of the Klarity Product. All of the above referenced milestone payments are payable at the Company's election in cash or shares of the Company's restricted common stock. Dr. Lindstrom is a member of the Company's Board of Directors, chairman of its Compensation Committee and a member of its Nomination and Corporate Governance Committee.

Sales and Marketing Agreement – Precision Lens

In April 2017, the Company entered into a Strategic Sales & Marketing Agreement (the "Plens Agreement") with Cameron Ehlen Group, Inc. dba Precision Lens ("Precision Lens"). Pursuant to the terms of the Plens Agreement, Precision Lens will provide exclusive sales and marketing representation services to Imprimis in select geographies in the U.S. Midwest, in connection with the our ophthalmic compounded formulation portfolio including our Dropless Therapy®, LessDrops® combination eye drops, Simple Drops™ preservative-free glaucoma drops, MKO Melt™ conscious sedation and other ocular-related formulations typically used for dilation, general inflammation and infection (the "Products").

Under the terms of the Plens Agreement, the Company is required to make commission payments to Precision Lens equal to ten percent (10%) of each calendar year's annual net sales for Products above and beyond the Company's initial $1,500 in annual net sales for Products for each calendar year. In addition, the Company is required to make certain periodic milestone payments to Precision Lens in shares of the Company's restricted common stock including: (i) 10,000 shares if net sales for Products reach $5,000 prior to December 31, 2017; (ii) 15,000 shares if net sales for Products reach $5,000; (iii) 15,000 shares if net sales for Products reach $10,000; (iv) 15,000 shares if net sales for Products reach $15,000; and (v) 15,000 shares if net sales for Products reach $20,000.

Sales and Marketing Agreement – SightLife

In April 2017, the Company entered into a Strategic Sales & Marketing Agreement (the "SightLife Agreement") with SightLife Surgical, Inc. ("SightLife"). Pursuant to the terms of the SightLife Agreement, SightLife will provide exclusive United States sales and marketing representation services to the Company in connection with the Company's Serum Tears™ autologous serum tears formulation (the "ASED Products") for dry eye disease.

Under the terms of the SightLife Agreement, the Company is required to make commission payments to SightLife equal to ten percent (10%) of each calendar year's annual net sales for ASED Products. In addition, the Company is required to make certain periodic milestone payments to SightLife in shares of the Company's restricted common stock including: (i) 5,000 shares if net sales for ASED Products reach $2,000 prior to December 31, 2017; (ii) 7,500 shares if net sales for ASED Products reach $2,500; (iii) 7,500 shares if net sales for ASED Products reach $5,000; (iv) 7,500 shares if net sales for ASED Products reach $7,500; and (v) 7,500 shares if net sales for ASED Products reach $10,000.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes thereto contained in Part I, Item 1 of this Quarterly Report on Form 10-Q (this "Quarterly Report"). Our condensed consolidated financial statements have been prepared and, unless otherwise stated, the information derived therefrom as presented in this discussion and analysis is presented, in accordance with accounting principles generally accepted in the United States of America ("GAAP").

The information contained in this Quarterly Report is not a complete description of our business or the risks associated with an investment in our common stock. We urge you to carefully review and consider the various disclosures made by us in this Quarterly Report and in our other reports filed with the U.S. Securities and Exchange Commission (the "SEC"), including our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and subsequent reports on Form 8-K, which discuss our business in greater detail. As used in this discussion and analysis, unless the context indicates otherwise, the terms the "Company", "Imprimis" "we", "us" and "our" refer to Imprimis Pharmaceuticals, Inc. and its consolidated subsidiaries, consisting of Pharmacy Creations, LLC (Pharmacy Creations), South Coast Specialty Compounding, Inc. d/b/a Park Compounding (Park), ImprimisRx TX, Inc. (ImprimisRx TX), Eton Pharmaceuticals, Inc. (Eton) and ImprimisRx PA, Inc. (ImprimisRx PA). In this discussion and analysis, we refer to our consolidated subsidiaries collectively as our "ImprimisRx compounding pharmacies."

In addition to historical information, the following discussion contains forward-looking statements regarding future events and our future performance. In some cases, you can identify forward-looking statements by terminology such as "will", "may", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "forecasts", "potential" or "continue" or the negative of these terms or other comparable terminology. All statements made in this Quarterly Report other than statements of historical fact are forward-looking statements. These forward-looking statements involve risks and uncertainties and reflect only our current views, expectations and assumptions with respect to future events and our future performance. If risks or uncertainties materialize or assumptions prove incorrect, actual results or events could differ materially from those expressed or implied by such forward-looking statements. Risks that could cause actual results to differ from those expressed or implied by the forward-looking statements we make include, among others, risks related to: our ability to successfully implement our business plan, develop and commercialize our proprietary formulations in a timely manner or at all, identify and acquire additional proprietary formulations, manage our pharmacy operations, service our debt, obtain financing necessary to operate our business, recruit and retain qualified personnel, manage any growth we may experience and successfully realize the benefits of our acquisitions of Pharmacy Creations, LLC ("Pharmacy Creations"), South Coast Specialty Compounding, Inc. D/B/A Park Compounding ("Park"), Thousand Oaks Holding Company's wholly-owned subsidiaries Topical Apothecary Group, LLC (d/b/a TAG Pharmacy), Aerosol Science Laboratories, Inc. (d/b/a ASL Pharmacy), SinuTopic, Inc. (d/b/a Sinus Dynamics Pharmacy) and Mycotoxins, LLC (collectively "ImprimisRx PA"), and any other acquisitions and collaborative arrangements we may pursue; competition from pharmaceutical companies, outsourcing facilities and pharmacies; general economic and business conditions; regulatory and legal risks and uncertainties related to our pharmacy operations and the pharmacy and pharmaceutical business in general; physician interest in and market acceptance of our current and any future formulations and compounding pharmacies generally; our limited operating history; and the other risks and uncertainties described under the heading "Risk Factors" in Part II, Item 1A of this Quarterly Report. You should not place undue reliance on forward-looking statements. Forward-looking statements speak only as of the date they are made and, except as required by law, we undertake no obligation to revise or publicly update any forward-looking statement for any reason.

Except as otherwise noted, all dollar amounts in this discussion and analysis are expressed in thousands.

Overview

We are an ophthalmology-focused pharmaceutical company specializing in the development, production and sale of innovative medications that offer unique competitive advantages and serve unmet needs in the marketplace. We are committed to our mission, vision and values to deliver high-quality novel medications to physicians and patients at affordable prices.

The cornerstone of our ophthalmology program consists of our proprietary Dropless Therapy® injectable and LessDrops® topical formulations that compete in the multi-billion dollar U.S. eye drop market. These formulations have been uniquely designed to address patient compliance issues and provide other compelling medical and economic benefits. We also offer a conscious sedation medication, the IV Free MKO Melt®, a proprietary alternative to intravenous sedation. The MKO Melt is administered sublingually to sedate patients undergoing ocular and other surgeries. We plan to expand our ophthalmology program and introduce additional innovative medications for glaucoma, wet age-related macular degeneration (wet AMD), diabetic macular edema (DME) and chronic dry eye disease (DED). Our integrative medicine business includes medications used in several therapeutic areas including oncology, autoimmunity, chronic infectious diseases, and endocrine and metabolic diseases. Our urology business includes a series of injectable erectile dysfunction formulations for patients that are refractory to or are otherwise unable to take phosphodiesterase type 5 inhibitors such as sildenafil (Viagra®), tadalafil (Cialis®) and vardenafil (Levitra®). We also make and sell low-cost therapeutic alternatives to Daraprim®, Thiola®, Elmiron®, and Calcium Disodium Versenate, all FDA-approved drugs that have experienced significant price increases.

Approximately 90 percent of our revenue is derived from buy-and-bill customers as a cash pay business and as such, the majority of our commercial transactions do not involve distributors, wholesalers, insurance companies, pharmacy benefit managers or other middle parties. We do not operate using and are not dependent on discount cards, rebates, or other methods and programs that typically eliminate transparency to the consumer. By making ourselves generally independent of third party payments, we are not subject to insurance company formulary inclusion and pharmacy benefit manager payment clawbacks. In this regard, our transactions are simple, involving a patient-in-need, a physician's diagnosis and a fair price and great service for a quality pharmaceutical product. The efficiency of our business model allows us to quickly innovate and safely deliver novel and clinically relevant products to the market with less complications and at lower costs for our customers than traditional pharmaceutical company competitors.

Our proprietary drug formulations are born from the clinical experience of a network of inventors, including physician prescribers, clinical researchers and pharmacist formulators, who develop and prescribe personalized medicines for individual patient needs. We work collaboratively with these inventors to identify and evaluate intellectual property related to potential candidates, assess relevant markets, and seek to validate the clinical experience with the objective of investing in commercialization activities. Although our business is focused on a pharmaceutical compounding commercialization strategy, we may also consider other commercialization pathways, including pursuing FDA approval to market and sell a drug formulation or technology.

We have incurred recurring operating losses and have had negative operating cash flows since July 24, 1998 (inception). In addition, we have an accumulated deficit of approximately $81,857 at March 31, 2017. Beginning on April 1, 2014, when we acquired our first ImprimisRx compounding pharmacy, we began generating revenue from sales of certain of our proprietary drug formulations and other non-proprietary formulations; however, we expect to incur further losses as we integrate and develop our pharmacy operations, evaluate other programs and continue the development of our formulations.

Operations

We currently produce and dispense our medications directly to customers through our ImprimisRx facilities located in Ledgewood, New Jersey, Irvine, California and Folcroft, Pennsylvania. Our New Jersey facility is comprised of two separate facilities, with one facility registered with the FDA as an outsourcing facility ("NJOF") under Section 503B of the Federal Food, Drug & Cosmetic Act (FDCA). The other New Jersey facility ("NJRX"), and our California and Pennsylvania facilities, are all licensed pharmacies operating under Sections 503A of the FDCA. All products that we produce and sell are made in the United States of America.

Below are descriptions of our current programs. We also continue to evaluate and assess intellectual property and other assets we have developed or acquired, including provisional patent applications, in order to support our development and potential commercialization of additional medications focused in the ophthalmology market and in other therapeutic areas.

Ophthalmology

In 2013, we acquired intellectual property trademarked as SSP Technology®, which allows for combination and administration of anti-inflammatory and anti-bacterial agents after the completion of ocular surgery. SSP Technology allows for increased solubility of active pharmaceutical ingredients and the creation of tunable, uniform particle sizes which enable these combined medications to be used as an intraoperative injectable or as a topical eye drop. Since our acquisition of this technology we have continued its development to include additional active pharmaceutical ingredients, such as NSAIDs. These combination medications have begun to impact the growing cataract surgery eye drop and refractive surgery eye drop markets. Based on our success and standing in the ophthalmology market, we plan to expand into additional ocular surgery markets where there is a risk of inflammation and infection and into other markets including glaucoma, wet age-related macular degeneration (wet AMD), diabetic macular edema (DME) and chronic dry eye disease.

Our proprietary ophthalmic medications provide physicians with the ability to address primary complications associated with ocular surgery including infection risk and post-operative inflammation due to patient non-compliance associated with traditional multiple bottle eye drop regimens. This is achieved by reducing the complexity of and in many cases altogether avoiding the need for post-operative eye drop regimens. We market these ophthalmic formulations as Dropless Therapy and LessDrops combination eye drops. We also package multiple ophthalmic medications, which may include our proprietary Dropless Therapy or LessDrops formulations, and other non-proprietary formulations as kits and dispensed to patients with needs for multiple ocular therapies.

Dropless Therapy

The cataract surgery market continues to experience significant growth. According to a 2013 Market Scope report, 3.8 million cataract surgeries are performed annually in the U.S. and nearly 22 million cataract surgeries were performed globally, with expected annual market growth of approximately 3%. The National Eye Institute estimates that over 24 million Americans currently have cataracts and that this number will grow to 38 million by 2030 and reach more than 50 million by 2050. Transparency Market Research estimates that the ophthalmology drug market will reach an estimated $21.6 billion by 2018.

Typically, the treatment regimen for the prevention of post-cataract and other intraocular surgery complications is a pre-operative and post-operative self-administered eye drop regimen, which requires strict patient compliance and careful adherence to a prescribed dosing schedule. Physicians have reported, and studies have shown, that eye drop regimens can be confusing to patients, which can cause non-compliance and incorrect dosing. Numerous published studies conducted in the U.S. and Europe have demonstrated that antibiotics administered into the eye at the time of cataract surgery significantly reduced the risk of developing post-surgery inflammation and infection.

Our Dropless Therapy medications are single, injectable intraocular doses that are administered during cataract surgery. Ophthalmologists have reported that Dropless Therapy has substantially reduced or eliminated the need for patient-administered eye drops following ocular surgery, thereby largely eliminating patient non-compliance and dosing errors associated with post-operative self-administered eye drop care regimens. Since launching Dropless Therapy in April 2014, multiple investigator initiated studies have been completed and their positive findings published in trade and peer-reviewed publications. A recently published study comparing Dropless Cataract Surgery to post-surgical topical drops found that 92 percent of the patients preferred Dropless Therapy over eye drops, and regarding post-operative visual outcome, 88 percent of patients preferred Dropless over topical drops. In a large peer-reviewed retrospective study of 1,541 patients receiving Dropless Therapy during cataract surgery, researchers reported that nearly 92 percent of the cases required no supplemental medication following surgery. A 2015 economic study with Cataract Surgeons for Improved Eyecare and conducted by Andrew Chang & Co, LLC, demonstrated that, assuming a cost of $100 per dose (dollar amount not expressed in thousands), Dropless Therapy could provide collective savings to Medicare, Medicaid and patients of up to $13 billion, with a most likely savings estimate of $8.7 billion, over a 10-year period (dollar amounts not expressed in thousands).

LessDrops Combination Eye Drops

In addition to the 3.8 million cataract surgeries performed annually in the U.S., the American Academy of Ophthalmology (AAO) estimates that over one-half of Americans require some form of vision correction and 43 million of these individuals are candidates for refractive surgery. Nearly 96 percent of the refractive surgery procedures performed are LASIK (laser in situ keratomileusis) surgeries, an outpatient surgical procedure used to treat nearsightedness, farsightedness, and astigmatism. According to Statista, an estimated 600,000 LASIK procedures were performed in the U.S. in 2015.

Our LessDrops® topical formulations, introduced during first quarter 2015, include combination steroid, antibiotic and non-steroidal anti-inflammatory topical eye drops for patient administration following cataract, refractive and other ocular surgeries. We estimate that our LessDrops combination eye drops may require the administration by patients of up to 50 percent fewer drops post-surgery and cost up to 75 percent less than other currently available post-surgery eye drop regimens. We plan to expand our LessDrops portfolio to provide additional eye drop choices for our ophthalmologist customers. We believe we are capturing an estimated 10 percent of the U.S. post-surgery cataract eye drop market. Over 1,500 ophthalmologist customers have adopted Dropless and LessDrops medications and we have serviced over 600,000 cataract and refractive surgeries since April 2014. A growing number of high-volume cataract surgery practices, hospitals and ambulatory surgery centers throughout the U.S. have become customers.

Glaucoma Eye Drops

In May 2017, we launched a series of preservative-free eye drops and combination eye drops for glaucoma patients. According to the Glaucoma Research Foundation, there are over 3 million Americans with glaucoma but only half are aware they have it. Glaucoma is incurable, and if not managed can lead to blindness. Generally, the first line of treatment consists of a prostaglandin-analogue (PGA) eye drop regimen. As the disease progresses, non-PGA products are generally added as a second line treatment. Topical agents, other than PGAs, include beta blockers, alpha agonists, miotics and steroids. Up to 50 percent of glaucoma patients require more than one drug following a few months of initial treatment, however the FDA has yet to approve a PGA combination product despite combination products including a PGA (Xalacom®, DuoTrav® and Ganfort®) available outside of the U.S. Our glaucoma topical medications will include combinations of active pharmaceutical ingredients (APIs) that are similar to those formulations marketed and available in countries outside of the U.S. Our combination eye drops may require the administration of fewer drops by patients and cost significantly less than currently available glaucoma drop regimens.

We believe the use of combination products is rising because of two major advantages; improved patient compliance by avoiding separate administration of drops and prevention of washout effect by eliminating the need for consecutive dosing intervals.

Dry Eye Disease Program

In April 2017, we acquired exclusive worldwide rights to Klarity, an innovative and patented ophthalmic topical solution and gel technology for patients with dry eye disease (DED). Klarity is designed to protect and rehabilitate the ocular surface following ophthalmic surgery, contact lens wear, or in patients with moderate to severe DED. The Klarity formulations are preservative-free and can be formulated to any viscosity, ranging from a topical drop or gel to a dispersive viscosurgical device. We expect the Klarity formulations will be the cornerstone of our new DED program, which we expect to launch in the second half of 2017.

In May 2017, we announced the upcoming launch of our compounded Serum Tears™ autologous serum eye drops and signing of an exclusive strategic sales and marketing agreement with SightLife Surgical, Inc. (“SightLife”). Under the agreement, SightLife Surgical will deploy a dedicated sales team to sell our Serum Tears™ compounded formulations to physicians, large practice groups, surgery centers, hospitals and healthcare organizations nationwide. Imprimis’ Serum Tears™ autologous serum compounded eye drops (ASEDs) are prescribed for chronic dry eye patients who do not respond to traditional dry eye treatments. Patients with dry eye severity typically do not respond to conventional therapy and may be considered candidates for autologous serum eye drops as a treatment option. Published data have demonstrated the benefits of using an individual’s serum, which contain antibodies and growth factors, as an eye drop therapy for chronic dry eye. Under the planned Imprimis ASEDs program, Serum Tears™ will be available in varying ranges of saline dilution combinations.

Dry eye is among the most common conditions seen by eye care professionals. Dry eye occurs when the eye does not produce enough tears, or when the tears are not of the correct consistency and evaporate too quickly. Inflammation of the surface of the eye may also occur. According to AARP (2015), it is reported that 20 to 30 million people suffer from mild dry eye, and nine to 12 million have moderate to severe dry eye. Although dry eye can impact people of any age, elderly people are frequently affected with a reported five million afflicted with DED.

MKO Melt® Conscious Sedation

In May 2016, we launched our patent-pending IV Free MKO Melt® conscious sedation formulation. Traditionally, sedation medications for ocular surgery are administered intravenously, which require IV medications and supplies, and the need for additional staff to assist in preparation, administration and monitoring related to this process. Our MKO Melt is administered sublingually and is an option to IV anesthetic to sedate patients undergoing ocular surgeries. The MKO Melt may have use in numerous other surgical procedures outside of ophthalmology including MRI procedures, dental procedures, colonoscopies, vasectomies, biopsies and women’s health.

Integrative Medicine

Our integrative medicine business includes personalized medications used in several integrative areas including oncology, autoimmunity, chronic infectious diseases, and endocrine and metabolic diseases. The portfolio includes ascorbic acid (non-corn source), patent-pending curcumin emulsion, lyophilized artesunate and other medications used for various integrative therapies. We sponsor the Integrative Therapies Institute (ITI) conferences that cover a multitude of integrative topics and feature speakers considered thought leaders in their respective fields.

Urology

We offer injectable medications for the treatment of erectile dysfunction (ED). According to the American Urological Association (AUA) there are 20 to 30 million men in the U.S. with ED. The AUA indicates that intracavernous vasoactive injections, including Tri-Mix (phentolamine, papaverine and prostaglandin), are considered the most effective non-surgical treatment for ED. We are also developing additional formulations associated with ED, including a sublingual formulation. We currently have one managed care provider that consists of the majority of our Tri-Mix sales. We are currently marketing this large healthcare provider additional formulations, including our ophthalmic medications, and hope to grow our existing sales footprint and expand the relationship into other therapeutic areas.

In May 2016, we introduced our patent-pending customizable delayed-release tiopronin medications that may be prescribed by physicians as a lower-cost alternative to FDA-approved Thiola® for cystinuria patients. Cystinuria is a chronic genetic disease that causes stones made of the amino acid cystine to form in the kidneys, bladder and/or urethra. In addition to the significantly lower cost, our tiopronin medications may allow for a reduction in the number of pills patients are required to consume daily.

We also produce and dispense PPS-DR (pentosan polysulfate sodium) oral medications as a lower-cost option to an off-patent oral drug, Elmiron®, for the treatment of symptoms associated with interstitial cystitis (IC). IC, also referred to as painful bladder syndrome and chronic pelvic pain, is a chronic bladder condition. According the Interstitial Cystitis Association, IC affects an estimated 4 to 12 million men and women in the U.S. There is no known cure for IC and a combination of therapies is recommended for most patients including medication, physical therapy and dietary changes. Our low-cost PPS-DR oral medications feature delayed-released capsules that may allow for reduced daily dosing requirements.

Other Markets and Development Programs

In October 2015, we introduced our compounded pyrimethamine and leucovorin formulations, lower-cost therapeutic alternatives to FDA-approved Daraprim® for the treatment of toxoplasmosis. Toxoplasmosis can be of major concern for patients with weakened immune systems such as patients with HIV/AIDS, pregnant women and children. Our combination pyrimethamine and leucovorin formulations are now offered by Express Scripts, the largest pharmacy benefit manager in the U.S., and by many other hospitals and healthcare organizations.

In September 2016, we announced the availability of our EDTA calcium disodium injectable formulation, a lower-cost alternative to FDA-approved Calcium Disodium Versenate, commonly used to stabilize and treat patients exposed to lead poisoning.

We also offer hormone replacement therapy, weight loss, dermatologic, and other personalized medications, which we believe may provide differentiating and potentially beneficial factors as compared to competing therapies.

Eton Pharmaceuticals, Inc.

We have developed a patent-pending formulation that may be prescribed by physicians as a therapeutic alternative to H.P. Acthar Gel®. H.P. Acthar Gel is prescribed for various indications and is known to present stability challenges. We have successfully completed 180-day stability and potency testing on our patent-pending corticotropin formulation.

We also own a patent-pending injectable pentoxifylline formulation that has been used as a compounded medication to treat symptoms associated with Peyronie’s Disease. According to the James Buchanan Brady Urological Institute (John Hopkins), Peyronie’s Disease may affect up to 1 in 11 men. In 2014, we sponsored a small investigator initiated study that evaluated our pentoxifylline formulation for the treatment of Peyronie’s Disease in up to ten patients. The study showed that of the patients who completed the full treatment regimen (6 patients) 100% showed improvement in pain and erectile dysfunction (if either symptom was present), and 83% of the patients either indicated significant improvement in curve (approximately 50% improvement) or had arrested disease progression.

We believe our patent-pending corticotropin formulation and our proprietary injectable pentoxifylline formulation may be candidates to be developed under the 505(b)(2) new drug application FDA approval pathway. We are currently pursuing an opportunity to separately finance and develop these formulations through a wholly owned subsidiary, called Eton Pharmaceuticals, Inc. ("Eton"). We have established Eton, are transferring the assets to it and are negotiating for a senior management team to lead the company. The arrangements to establish Eton are contingent on there being a successful initial round of financing, which we anticipate being a private placement of equity securities of Eton. If we are successful in financing Eton, Imprimis would retain an equity position in Eton and a royalty on commercial sales of certain Eton products.

Customer Relationships

We produce and dispense our innovative medications to a growing number of patients, physicians, hospitals, ambulatory surgery centers and pharmacy benefits managers (PBMs). In September 2016, we entered into a purchase and supply agreement with AmSurg Holdings, Inc. a leading national provider of multi-specialty outsourced physician services to more than 245 U.S. hospitals, ambulatory surgery centers and other healthcare facilities. Pursuant to the terms of the agreement, we will provide AmSurg with our core ophthalmic medications including our Dropless Therapy and LessDrops combination eye drops.

In October 2016, we entered into a purchase and supply agreement with the specialty pharmacy division of a leading PBM covering more than 65 million Americans. Pursuant to the terms of the agreement, we will supply the network of specialty pharmacies with our complete formulary of medications. We believe the agreement represents a new approach to efficiently deliver medications from the manufacturer directly to the consumer, thereby eliminating several layers of inefficiencies for the millions of patients covered by this renowned PBM. We expect this agreement will help accelerate the adoption of several of our products we currently offer and others we expect to launch in 2017.

In December 2016, we announced the launch of Correct Compound™ program with FocusScript, LLC (FocusScript), the largest compounding claims management company in the U.S. Through the program, we will jointly offer FocusScript's proprietary CDF-Logic program of a customizable compound formulary and our portfolio to PBMs, managed care organizations and other healthcare payors. FocusScript will manage and process Correct Compound claims across FocusScript's preferred network of over 200 compounding pharmacies which are accredited and credentialed through the UCAP program, and administered in an exclusive partnership with the National Association of Boards of Pharmacy (NABP). FocusScript will also provide its custom, proprietary system for pre-processing claims for optimal pricing, broad analytics and real-time oversight of fraud, waste and abuse. We believe this partnership allows us to leverage the value we have built in our brand and maintain our focus and resources on our rapidly-growing ophthalmology business. FocusScript's pharmacy network, relationships with payors and comprehensive prescription drug adjudication tools should help us increase our reach and lower costs that are typically associated with the billing and adjudication process of prescription medications.

Compounding Facilities

One of our key strategies is the use of compounding pharmacies to formulate our proprietary compounded drug formulations and distribute them directly to physicians and patients. Generally, compounding pharmacies combine different APIs, all of which are FDA-approved, to create specialized preparations prescribed by a physician to treat an individually identified patient. Physicians prescribe our products because a standard medication approved by the FDA is not appropriate for a patient's needs. Examples of compounded formulations include medications with alternative dosage strengths or unique dosage forms, such as topical creams or gels, suspensions, or solutions with more tolerable drug delivery vehicles. A compounding pharmacy is only permitted to compound or prepare a patient-specific formulation upon receipt of a physician prescription for an individual patient. Our three ImprimisRx compounding pharmacies make, dispense and sell our proprietary and non-proprietary compounded formulations and are collectively licensed to distribute to 50 states.

In October 2016, we registered NJOF with the FDA as a Section 503B outsourcing facility. An outsourcing facility is an entity permitted to compound large quantities of certain drug formulations without a prescription and distribute them out of state without limitation. An outsourcing facility is required to comply with certain additional requirements that do not apply to compounding pharmacies, including adherence to current good manufacturing practices (cGMP). We estimate that our capital expenditures to build and equip the New Jersey facility were approximately $5,770. We have also finalized improvements to our California based pharmacy. We have invested approximately $530 and completed the improvement efforts at our California pharmacy in January 2017.

In June 2016, our Texas facility was damaged related to a faulty sprinkler head. We immediately commenced restoration efforts, notified our insurance carrier and filed claims for damages under our insurance policies, including claims related to business interruption (see discussion below regarding the Texas insurance claim). In September 2016, after consideration of the totality of circumstances surrounding our collective facility infrastructure, including estimated production capacity and capabilities of NJOF, and the damage to our Texas facility, we decided to cease operations in Texas. In February 2017, we entered into a stock purchase agreement to sell our Texas entity for $10 and transfer the lease agreement to the new owners.

Factors Affecting Our Performance

We believe the primary factors affecting our performance are our ability to increase revenues of our proprietary compounded formulations and certain non-proprietary products, grow and gain operating efficiencies in our pharmacy operations, optimize pricing and obtain reimbursement options for our proprietary compounded formulations, and continue to pursue development and commercialization opportunities for certain of our ophthalmology, urology and other assets that we have not yet made commercially available as compounded formulations. We believe we have built a tangible and intangible infrastructure that will allow us to scale revenues efficiently in the long-term. All of these activities will require significant costs and other resources, which we may not have or be able to obtain from operations or other sources. See "—Liquidity and Capital Resources" below.

Selection and Development of Formulations

We plan to pursue the development of new proprietary compounded formulations in the ophthalmology and/or other therapeutic areas, which may include continued activities to develop and commercialize current assets or, if and as opportunities arise, potential acquisitions of new intellectual property rights and assets. We also intend to seek opportunities to introduce new lower-cost compounded formulation alternatives to higher-priced FDA-approved drugs, as part of our Imprimis Cares initiative. Our product development strategy is to focus on a select few therapeutic areas in which we believe there is broad market potential, large unmet needs and/or unique value to physicians and patients and to develop and offer formulations within these therapeutic areas that could afford us with gross margins. However, our expectations and assumptions about market potential and patient needs may prove to be wrong and we may invest capital and other resources on formulations that do not generate sufficient revenues for us to recoup our investment. Additionally, we will need to rely on relationships with third parties, including pharmacists, physicians and other inventors, to assist in the identification, research, development and assessment of such formulations, which exposes us to risks. Moreover, we may be unable to identify attractive acquisition opportunities and negotiate agreements with their owners that are acceptable to us, particularly if such assets involve competition among several purchasers, and we have limited resources to invest in or acquire additional potential product development assets and integrate them into our business.

Compounding Strategy

We currently make, dispense and sell our commercially available proprietary compounded formulations and certain other non-proprietary products through our compounding pharmacies pursuant to a prescription for an individually identified patient. Additionally, in November 2016, we registered part of our New Jersey facility as an outsourcing facility. We are working to further develop our facilities into a unified compounding network. For instance, during 2016 we developed "ImprimisRx" as a uniform brand for our compounding facilities and have renamed all of our compounding facilities under this or a similar name. These efforts may also entail seeking to acquire new pharmacies or outsourcing facilities to add to our existing infrastructure, as opportunities arise. However, we have limited experience acquiring, building or operating compounding pharmacies or other prescription dispensing facilities or commercializing our formulations through ownership of or licensing arrangements with pharmacies. As a result, we may experience difficulties expanding our compounding pharmacy network strategy, including difficulties that arise as a result of our lack of experience, and we may be unsuccessful.

Reimbursement Options and Pricing Optimization

Our proprietary ophthalmic compounded formulations are currently primarily available on a cash-pay basis. As part of our Imprimis Cares initiative, we work with third-party insurers, pharmacy benefit managers and buying groups to offer patient-specific customizable compounded formulations at accessible prices. We plan to continue to devote time and other resources to seek reimbursement and patient pay opportunities for these and other compounded formulations and we have hired pharmacy billers to process certain existing reimbursement opportunities for certain formulations. However, we may be unsuccessful in achieving these goals, as many third-party payors have imposed significant restrictions on reimbursement for compounded formulations in recent years. Moreover, third-party payors, including Medicare, are increasingly attempting to contain health care costs by limiting coverage and the level of reimbursement for new drugs and by refusing, in some cases, to provide coverage for uses of approved products for disease indications for which the FDA has not granted labeling approval. Further, the Health Reform Law may have a considerable impact on the existing U.S. system for the delivery and financing of health care and could conceivable have a material effect on our business. As a result, reimbursement from Medicare, Medicaid and other third-party payors may never be available for any of our products or, if available, may not be sufficient to allow us to sell the products on a competitive basis and at desirable price points. If government and other third-party payors do not provide adequate coverage and reimbursement levels for our formulations, the market acceptance for our formulations may be limited.

Additionally, we are making efforts to normalize the pricing for our currently available proprietary compounded ophthalmic formulations. An economic study conducted in 2015 by researchers at Andrew Chang & Co, LLC and co-sponsored by us demonstrated that, assuming the cost of Dropless Therapy is $100 per dose (dollar amount not expressed in thousands), our Dropless Therapy formulations could provide collective savings to Medicare, Medicaid and patients of up to $13 billion, with a most likely savings estimate of $8.7 billion, over a 10-year period. Based on this research, we believe optimized pricing for our Dropless Therapy formulations could be nearly $100 per dose (dollar amount not expressed in thousands). Any efforts to attain optimized pricing for our Dropless Therapy or any of our other proprietary formulations could fail, which could make our products less attractive or unavailable to some patients or could reduce our margins.

Sales and Marketing Efforts

Although we believe that our proprietary drug formulations could have commercial appeal in international markets and we have engaged distributors and entered into out-licensing arrangements for certain of our proprietary formulations in certain non-U.S. markets, including Canada, we expect to continue to focus our sales and marketing efforts on our U.S. commercial opportunities during 2017. Our sales and marketing efforts are currently organized into two teams, the larger of which focuses on our ophthalmology business and the other on our non-ophthalmology business. In 2017, we entered into two sales and marketing agreements (described further below) that we believe will help expand the presence of our sales and marketing activities within ophthalmology. We believe these sales and marketing agreements will accelerate launches of our new ophthalmology programs in glaucoma and DED and limit our initial capital requirements commonly associated with new product launches and increased sizes of sales forces. Our sales and marketing activities consist primarily of efforts to educate doctors, ambulatory surgery centers, healthcare systems, hospitals and other users throughout the U.S. about our formulations. We expect that we may experience growth in the sales of our proprietary compounded formulations in future periods, particularly in light of our current and planned launches of new formulations and commercialization campaigns. However, we may not be successful in doing so, whether due to the safety, quality or availability of our proprietary compounded formulations, the size of the markets for such formulations, which could be smaller than we expect, the timing of market entry relative to competitive products, the availability of alternative compounded formulations or FDA-approved drugs, the price of our compounded formulations relative to alternative products or the success of our sales and marketing efforts, which is dependent on our ability to build and grow a qualified and adequate internal sales function. Further, we are dependent upon market acceptance of compounded formulations generally, and some physicians may be hesitant to prescribe, and some patients may be hesitant to purchase and use, these non-FDA approved formulations, particularly when an FDA-approved alternative is available.

Recent Developments

The following describes certain developments in 2017 to date that are important to understand our financial condition and results of operations. See the notes to our condensed consolidated financial statements included in this report for additional information about each of these developments. Dollar amounts are expressed in thousands.

Texas Subsidiary Sale

On February 13, 2017, we entered into a stock purchase agreement (the "SPA") with Livernois & London, LLC ("Livernois"). Pursuant to the terms of the SPA, we sold to Livernois one hundred percent (100%) of the issued and outstanding shares of common stock of our Texas based subsidiary, ImprimisRx TX, Inc dba ImprimisRx ("Imprimis TX"). We ceased operations of Imprimis TX in 2016 and the SPA did not transfer to Livernois any our rights to intellectual property, products, clients, nor any of our existing business operations. As consideration for the purchase of Imprimis TX, Livernois paid the us $10 and the we assigned, and Livernois assumed, the remaining lease obligation totaling $113 for our Texas based facility. We recorded a loss of $15 from the sale of Imprimis TX, which is included in the accompanying condensed consolidated statements of operations.

Registered Direct Offering

On March 21, 2017, we entered into securities purchase agreements (the "Purchase Agreement") with two accredited investors (the "Investors"), which provided for the sale by the Company of 1,312,500 shares of our common stock, at a price of $2.40 per share (the "Offering"). We received net proceeds of $2,941 after deducting the underwriter discount and other offering expenses.

Klarity License

On April 1, 2017, we entered into a license agreement (the "Klarity License Agreement") with Richard L. Lindstrom, M.D., a member of our Board of Directors. Pursuant to the terms of the Klarity License Agreement, we licensed certain intellectual property and related rights from Dr. Lindstrom to develop, formulate, make, sell, and sub-license the topical ophthalmic solution Klarity used to protect and rehabilitate the ocular surface (the "Klarity Product"). Under the terms of the Klarity License Agreement, we are required to make royalty payments to Dr. Lindstrom ranging from three percent (3%) to six percent (6%) of net sales, dependent upon the final formulation of the Klarity Product sold. In addition, we are required to make certain milestone payments to Dr. Lindstrom including: (i) an initial payment of $50 upon execution of the Klarity License Agreement, (ii) a second payment of $50 following the first $50 in net sales of the Klarity Product; and (iii) a final payment of $50 following the first $100 in net sales of the Klarity Product. All of the above referenced milestone payments are payable at the Company's election in cash or shares of our restricted common stock.

Dr. Lindstrom is a member of the Company's Board of Directors, and chairman of its Compensation Committee and a member of its Nomination and Corporate Governance Committee. Our Board has reviewed the agreement and financials terms thereof, and does not expect total payments to Dr. Lindstrom will be in excess of $120,000 during the next twelve months. Furthermore, the Board has determined that entering into the Klarity License Agreement would not impair Dr. Lindstrom's independence nor his ability to provide independent oversight of the Company.

Precision Lens Marketing Agreement

On April 13, 2017, we entered into a Strategic Sales & Marketing Agreement (the "Marketing Agreement") with Cameron Ehlen Group, Inc. dba Precision Lens ("Precision Lens"). Pursuant to the terms of the Agreement, Precision Lens will provide exclusive sales and marketing representation services to Imprimis in select geographies in the U.S. Midwest, in connection with the our ophthalmic compounded formulation portfolio including our Dropless Therapy®, LessDrops® combination eye drops, Simple Drops™ preservative-free glaucoma drops, MKO Melt® conscious sedation and other ocular-related formulations typically used for dilation, general inflammation and infection (the "Products").

Under the terms of the Marketing Agreement, we are required to make commission payments to Precision Lens equal to ten percent (10%) of each calendar year's annual net sales for Products above and beyond the Company's initial $1,500 in annual net sales for Products for each calendar year. In addition, we are required to make certain periodic milestone payments to Precision Lens in shares of the Company's restricted common stock including: (i) 10,000 shares if net sales for Products reach $5,000 prior to December 31, 2017; (ii) 15,000 shares if net sales for Products reach $5,000; (iii) 15,000 shares if net sales for Products reach $10,000; (iv) 15,000 shares if net sales for Products reach $15,000; and (v) 15,000 shares if net sales for Products reach $20,000.

SightLife Surgical Marketing Agreement

On April 28, 2017, we entered into a Strategic Sales & Marketing Agreement (the "SightLife Agreement") with SightLife Surgical, Inc. ("SightLife"). Pursuant to the terms of the SightLife Agreement, SightLife will provide exclusive U.S. sales and marketing representation services to us in connection with the our Serum Tears™ autologous serum tears formulation (the "ASED Products") for dry eye disease.

Under the terms of the SightLife Agreement, we are required to make commission payments to SightLife equal to ten percent (10%) of each calendar year's annual net sales for ASED Products. In addition, we are required to make certain periodic milestone payments to SightLife in shares of the our restricted common stock including: (i) 5,000 shares if net sales for ASED Products reach $2,000 prior to December 31, 2017; (ii) 7,500 shares if net sales for ASED Products reach $2,500; (iii) 7,500 shares if net sales for ASED Products reach $5,000; (iv) 7,500 shares if net sales for ASED Products reach $7,500; and (v) 7,500 shares if net sales for ASED Products reach $10,000.

Results of Operations

The following period-to-period comparisons of our financial results are not necessarily indicative of results for the current period or any future period. As a result of our acquisitions of our ImprimisRx compounding pharmacies, and any additional pharmacy acquisitions or other such transactions we may pursue, we may experience large expenditures specific to the transactions that are not incident to our operations. Dollar amounts are expressed in thousands (except share and per share data).

Comparison of the three months ended March 31, 2017 and 2016

Revenues

Our revenues include amounts recorded from sales of proprietary compounded formulations and revenues received from royalty payments owed to us pursuant to out-license arrangements.

The following presents our revenues for the three months ended March 31, 2017 and 2016:

	Three months ended March 31,		
	2017	2016	Variance
Sales, net	$ 6,089	$ 4,381	$ 1,708
License revenues	8	-	8
Total revenues	$ 6,097	$ 4,381	$ 1,716

The increase in revenue between periods was largely attributable to increased sales of our proprietary formulations and furtherance of our ophthalmology related compounded formulations, including our LessDrops formulations. Our gross ophthalmology related sales were approximately $3,658 for the three months ended March 31, 2017, compared to $1,788 during the same period last year.

Cost of Sales

Our cost of sales includes direct and indirect costs to manufacture formulations and sell products, including active pharmaceutical ingredients, personnel costs, packaging, storage, royalties, shipping and handling costs, manufacturing equipment and tenant improvements depreciation, the write-off of obsolete inventory and other related expenses.

The following presents our cost of sales for the three months ended March 31, 2017 and 2016:

	Three months ended March 31,		$
	2017	2016	Variance
Cost of sales	$ 3,357	$ 2,249	$ 1,108

The increase in our cost of sales between periods was largely attributable to an increase in the volume of unit sales of our formulations and products and our associated costs of such sales. We also incurred some inefficiencies in our overall production processes during the three months ended March 31, 2017 as we shifted certain production efforts and requirements to new processes and systems, including cGMP requirements at our NJ based outsourcing facility which effected our overall gross margin percent.

Selling and Marketing Expenses

Our selling and marketing expenses consist of costs associated with our marketing activities and sales of our proprietary compounded formulations and other non-proprietary pharmacy products and formulations, which include associated personnel costs, including wages and stock-based compensation.

The following presents our selling and marketing expenses for the three months ended March 31, 2017 and 2016:

	Three months ended March 31,		$
	2017	2016	Variance
Selling and marketing	$ 2,440	$ 1,900	$ 540

The increase in selling and marketing expenses during the three months ended March 31, 2017 compared to the same period last year, was primarily attributable to the expansion of our sales and marketing efforts which included additional commercialization personnel, increased presence at trade conferences and implementation of other various marketing activities, all related to our commercialization efforts for our proprietary and certain non-proprietary compounded formulations.

General and Administrative Expenses

Our general and administrative expenses include personnel costs, including wages and stock-based compensation, corporate facility expenses, and investor relations, consulting, insurance, filing, legal and accounting fees and expenses.

The following presents our general and administrative expenses for the three months ended March 31, 2017 and 2016:

	Three months ended March 31,		$
	2017	2016	Variance
General and administrative	$ 4,371	$ 3,940	$ 431

The increase in general and administrative expenses between periods was largely attributable to the general increase of our operations to support the launch of our NJ based outsourcing facility, growth in sales, including hiring additional personnel, obtaining and maintaining state pharmacy licenses, increased professional fees and other related activities.

Research and Development Expenses

Our research and development expenses primarily include expenses related to the development of acquired intellectual property, investigator-initiated research and evaluations and other costs related to the clinical development of our assets.

The following presents our research and development expenses for the three months ended March 31, 2017 and 2016:

	Three months ended March 31,		$
	2017	2016	Variance
Research and development	$ 160	$ 46	$ 114

The increase in research and development expenses between periods was primarily attributable to several formulation development studies we conducted on our core formulations during the three months ended March 31, 2017.

Interest Income

Interest income was $3 for three months ended March 31, 2017, compared to $2 in the prior year.

Interest Expense

Interest expense was $791 for three months ended March 31, 2017, compared to $631 during the same period last year. The increase was primarily due to interest expense recognition related to the LSAF Loan, as well as capital leases and deferred acquisition obligations related to our acquisition of Park.

Income Tax Benefit

Income tax benefit was $28 for three months ended March 31, 2017, which was related to the net change in our deferred tax liabilities and assets, specifically those related to the Park acquisition and its identifiable intangible assets.

Net Loss

Net loss for the three months ended March 31, 2017 was $(5,006), or $(0.26) basic and diluted net loss per share, respectively, compared to a net loss for the prior year of $(4,496), or $(0.43), basic and diluted net loss per share, respectively.

Liquidity and Capital Resources

Liquidity

Our cash on hand (including restricted cash) at March 31, 2017 was $7,596, compared to $9,053 at December 31, 2016. Since inception through March 31, 2017 we have incurred aggregate losses to common stockholders of $(81,857). These losses are primarily due to selling, general and administrative and research and development expenses incurred in connection with developing and seeking regulatory approval for a former drug candidate, which activities we have now discontinued, the development and commercialization of novel compounded formulations and the development of our pharmacy operations.

As of the date of this Quarterly Report, we believe that cash and cash equivalents and restricted investments of approximately $7,596 at March 31, 2017, will be sufficient to sustain our planned level of operations and capital expenditures for at least the next 12 months. However, our plans for this period may change, our estimates of our operating expenses, capital expenditures and working capital requirements could be inaccurate, we may pursue acquisitions of pharmacies or other strategic transactions that involve large expenditures or we may experience growth more quickly or on a larger scale than we expect, any of which could result in the depletion of capital resources more rapidly than anticipated and could require us to seek additional financing earlier than we expect to support our operations.

We expect to use our current cash position and funds generated from our operations and any financing to pursue our business plan, which includes developing and commercializing compounded formulations and technologies, integrating and developing our compounding operations, pursuing potential future strategic transactions as opportunities arise, including potential acquisitions of additional pharmacy, outsourcing facilities, drug company and manufacturers, and/or assets or technologies, and otherwise fund our operations. We may also use our resources to conduct clinical trials or other studies in support of our formulations or any product candidate for which we pursue FDA approval, to pursue additional development programs or to explore other development opportunities.

We intend to leverage recent investments made to our New Jersey facility, including new production processes and filling and labeling automation, to offset previously planned production in Texas. We also have made recent company-wide improvements in technology integration, production automation, quality systems and other supply chain efficiencies. These actions are expected to help streamline our operations.

Net Cash Flow

The following provides detailed information about our net cash flows for the three months ended March 31, 2017 and 2016:

	For the Three Months Ended March 31, 2017	For the Three Months Ended March 31, 2016
Net cash used in operating activities	$ (3,980)	$ (2,301)
Net cash used in investing activities	(216)	(2,423)
Net cash provided by financing activities	2,739	13,860
Net change in cash and cash equivalents	(1,457)	9,136
Cash and cash equivalents at beginning of the period	8,853	2,685
Cash and cash equivalents at end of the year	$ 7,396	$ 11,821

Operating Activities

Net cash used in operating activities was $(3,980) in 2017, as compared to $(2,301) used in operating activities during the same period in the prior year. The net cash used in operating activities was mainly attributed to expanding our operations, including hiring additional personnel, commercialization and marketing activities related to our proprietary formulations, prescription fulfillment activities and other related undertakings.

Investing Activities

Net cash used in investing activities in 2017 and 2016 was $(216) and $(2,423), respectively. Cash used in investing activities in 2016 was primarily related to construction efforts and equipment purchases for our New Jersey, California and Texas facilities.

Financing Activities

Net cash provided by financing activities in 2017 and 2016 was $2,739 and $13,860, respectively. The cash provided by financing activities during 2017 is primarily attributable to proceeds from the registered direct offering and sale of shares of common stock in March 2017. Cash provided by financing activities in 2016 was primarily attributable to proceeds received in January 2016 from the LSAF Convertible Note, proceeds received from the underwritten public offering and sale of shares of common stock in March 2016 and proceeds received from the private placement of common stock and warrants in December 2016.

Sources of Capital

Our principal sources of cash consist of cash provided by financing activities, including $2,941 in net proceeds related to a registered direct offering of our common stock in March 2017, and from ongoing product and formulation sales. We do not currently receive sufficient revenues to support our operations.

We may need significant additional capital to support our business plan and fund our proposed business operations. We are eligible to receive $1,871 in additional gross proceeds from future sales of our common stock under our Controlled Equity Offering^{SM} sales agreement with Cantor Fitzgerald & Co We may also seek additional financing from a variety of sources, including other equity or debt financings, funding from corporate partnerships or licensing arrangements, sales of assets or any other financing transaction. If we issue equity or convertible debt securities to raise additional funds, our existing stockholders may experience substantial dilution, and the newly issued equity or debt securities may have more favorable terms or rights, preferences and privileges senior to those of our existing stockholders. If we raise additional funds through collaboration or licensing arrangements or sales of assets, we may be required to relinquish potentially valuable rights to our product candidates or proprietary technologies or formulations, or grant licenses on terms that are not favorable to us. If we raise funds by incurring additional debt, we may be required to pay significant interest expenses and our leverage relative to our earnings or to our equity capitalization may increase. Obtaining commercial loans, assuming they would be available, would increase our liabilities and future cash commitments and may impose restrictions on our activities, such as the financial and operating covenants included in the agreements governing the LSAF Loan and the LSAF Note. Further, we may incur substantial costs in pursuing future capital and/or financing transactions, including investment banking fees, legal fees, accounting fees, printing and distribution expenses and other costs. We may also be required to recognize non-cash expenses in connection with certain securities we may issue, such as convertible notes and warrants, which would adversely impact our financial results.

We may be unable to obtain financing when necessary as a result of, among other things, our performance, general economic conditions, conditions in the pharmaceuticals and pharmacy industries, or our operating history, including our past bankruptcy proceedings. In addition, the fact that we are not and have never been profitable could further impact the availability or cost to us of future financings. As a result, sufficient funds may not be available when needed from any source or, if available, such funds may not be available on terms that are acceptable to us. If we are unable to raise funds to satisfy our capital needs when needed, then we may need to forego pursuit of potentially valuable development or acquisition opportunities, we may not be able to continue to operate our business pursuant to our business plan, which would require us to modify our operations to reduce spending to a sustainable level by, among other things, delaying, scaling back or eliminating some or all of our ongoing or planned investments in corporate infrastructure, business development, sales and marketing and other activities, or we may be forced to discontinue our operations entirely.

Recently Issued and Adopted Accounting Pronouncements

See Note 2 to our condensed consolidated financial statements included in this Quarterly Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted pursuant to the Securities Exchange Act of 1934, as amended, (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (the "SEC"), and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow for timely decisions regarding required disclosure.

Under the supervision and with the participation of our principal executive officer and principal financial officer, our management conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act, as they existed on March 31, 2017. Based on this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective to achieve their stated purpose as of March 31, 2017, the end of the period covered by this report.

Changes in Internal Controls over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during our quarter ended March 31, 2017, 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

We are not aware of any pending legal proceedings to which we are a party or of which any of our property is subject the adverse outcome of which, individually or in the aggregate, is likely to have a material adverse effect on our financial position or results of operations.

Item 1A. Risk Factors

You should carefully consider the following risk factors in addition to the other information contained in this Quarterly Report. Our business, financial condition, results of operations and stock price could be materially adversely affected by any of these risks. Dollar amounts are express in thousands.

Risks Related to Our Business

We have incurred losses in every year of our operations, and we may never become profitable.

We have incurred losses in every year of our operations, including net losses of $(19,087) and $(15,899) for the years ended December 31, 2016 and 2015, respectively, and net losses of $(5,006) and $(4,496) for the three months ended March 31, 2017 and 2016, respectively. As of March 31, 2017, our accumulated deficit was $(81,857). We expect to decrease our operating losses during 2017, however, our projections may not be correct and our plans could change and we could incur increasing operating losses in the foreseeable future for our commercialization activities, research and development and our pharmacy operations. Although we have been generating some revenue from our pharmacy operations, our ability to generate significant revenues and achieve profitability will depend on many factors, including those discussed in this "Risk Factors" section. Our business plan and strategies involve costly activities that are susceptible to failure, and, therefore, we may never be able to generate sufficient revenue to support our business or reach the level of sales and revenues necessary to achieve and sustain profitability.

We may not receive sufficient revenue to fund our operations and recover our development costs.

Our business plan involves the preparation and sale of our proprietary formulations through our compounding pharmacies and outsourcing facilities. We have limited experience operating pharmacies and commercializing compounded formulations, and we may be unable to successfully manage this business or generate sufficient revenue to recover our development costs and operational expenses. We may have only limited success in marketing and selling our proprietary formulations. Although we have established and plan to grow our internal sales teams to market and sell our proprietary formulations and other non-proprietary products, we have limited experience with such activities and may not be able to generate sufficient physician and patient interest in our formulations to generate significant revenue from sales of these products. In addition, we are substantially dependent on our ImprimisRx compounding pharmacies and outsourcing facilities, along with any pharmacy partners with which we may contract to compound and sell our formulations using our quality standards and specifications, in a timely manner and sufficient volumes to accommodate the number of prescriptions they receive. Our pharmacies may be unable to compound our formulations successfully and we may be unable to acquire, build or enter into arrangements with pharmacies or outsourcing facilities of sufficient size, reputation and quality to implement our business plan, which would cause our business to suffer.

We sell certain of our proprietary formulations primarily through a unified network of compounding pharmacies, but we may not be successful in our efforts to establish such a network or integrate these businesses into our operations.

Our business strategy includes establishing a unified compounding pharmacy network, whether through acquisitions, establishing new pharmacies or entering into licensing arrangements with third-party pharmacies, to market and sell our proprietary formulations and other non-proprietary products in all 50 states.

We acquired our New Jersey, California, and Pennsylvania compounding pharmacies in April 2014, January 2015, and October 2015, respectively. In February 2015, we leased space in New Jersey and began construction of a new outsourcing facility to replace our current facility, which was completed near the end of the third quarter of 2016. We plan to expand our pharmacy operations and personnel and developing our facilities into a unified compounding pharmacy network. We have been developing "ImprimisRx" as a uniform brand for our compounding facilities and are bringing our compounding facilities under this name. We have limited experience acquiring, building or operating compounding pharmacies or other prescription dispensing facilities or commercializing our formulations through ownership of or licensing arrangements with pharmacies. As a result, we may experience difficulties implementing our compounding pharmacy network strategy, including difficulties that arise as a result of our lack of experience, and we may be unsuccessful. For instance,

- we have experienced delays and increased costs in our outsourcing facility construction efforts;
- we may not be successful in completing future construction plans on a timely basis or within budget;
- we may not be successful in our efforts to integrate, manage or otherwise realize the benefits we expect from acquisitions of our ImprimisRx compounding pharmacies or any additional pharmacy businesses or outsourcing facilities we to acquire or build in the future;
- we may not be able to satisfy applicable federal and state licensing and other requirements for any of our pharmacy businesses in a timely manner or at all;
- changes to federal and state pharmacy regulations may restrict compounding operations or make them more costly;
- we may be unable to achieve a sufficient physician and patient customer base to sustain our pharmacy operations;
- market acceptance of compounding pharmacies generally may be curtailed or delayed; and
- we may not be able to enter into licensing or other arrangements with third-party pharmacies or outsourcing facilities when desired, on acceptable terms or at all.

Moreover, all our efforts to expand pharmacy operations and establish a unified pharmacy network will involve significant costs and other resources, which we may not be able to afford and may disrupt our other operations and distract management and employees from the other aspects of our business. As a result, our business could materially suffer if we are unable to further develop this unified pharmacy network and, even if we are successful, we may be unable to generate sufficient revenue to recover our costs.

We are dependent on market acceptance of compounding pharmacies and compounded formulations, and physicians may be unwilling to prescribe, and patients may be unwilling to use, our proprietary customizable compounded formulations.

We currently distribute our proprietary formulations through compounding pharmacies. Formulations prepared and dispensed by compounding pharmacies contain FDA-approved ingredients, but are not themselves approved by the FDA. Thus, our formulations have not undergone the FDA approval process and only limited data, if any, may be available about the safety and efficacy of our formulations for any particular indication. Certain compounding pharmacies have been subject to widespread negative media coverage in recent years, and the actions of these pharmacies have resulted in increased scrutiny of compounding pharmacy activities from the FDA and state governmental agencies. As a result, some physicians may be hesitant to prescribe and some patients may be hesitant to purchase and use non-FDA approved compounded formulations, particularly when an FDA-approved alternative is available. For other reasons physicians may be unwilling to prescribe or patients may be unwilling to use our proprietary compounded formulations, including the following: legal proscriptions on our ability to discuss the efficacy or safety of our formulations with potential users to the extent applicable data is available; our pharmacy operations are primarily operating on a cash-pay basis and reimbursement may or may not be available from third-party payors, including the government Medicare and Medicaid programs; and the formulations by our compounding facilities are not required to be prepared and are not presently being prepared in a manufacturing facility governed by cGMP requirements. Any failure by physicians, patients and/or third-party payors to accept and embrace compounded formulations could substantially limit our market and cause our operations to suffer.

Our business is significantly impacted by state and federal statutes and regulations.

Our proprietary formulations are comprised of active pharmaceutical ingredients that are components of drugs that have received marketing approval from the FDA, although our proprietary compounded formulations have not themselves received FDA approval. FDA approval is not required in order to market and sell our compounded formulations. In the future we may choose to pursue FDA approval to market and sell certain potential product candidates. The marketing and sale of compounded formulations is subject to and must comply with extensive state and federal statutes and regulations governing compounding pharmacies. These statutes and regulations include, among other things, restrictions on compounding for office use or in advance of receiving a patient-specific prescription or, for outsourcing facilities, requirements regarding preparation, such as regular FDA inspections and cGMP requirements, prohibitions on compounding drugs that are essentially copies of FDA-approved drugs, limitations on the volume of compounded formulations that may be sold across state lines, and prohibitions on wholesaling or reselling. These and other restrictions on the activities of compounding pharmacies and outsourcing facilities may significantly limit the market available for compounded formulations, as compared to the market available for FDA-approved drugs.

Our pharmacy business is impacted by federal and state laws and regulations governing the following: the purchase, distribution, management, compounding, dispensing, reimbursement, marketing and labeling of prescription drugs and related services; FDA and/or state regulation affecting the pharmacy and pharmaceutical industries, including state pharmacy licensure and registration or permit standards; rules and regulations issued pursuant to HIPAA and other state and federal laws related to the use, disclosure and transmission of health information; and state and federal controlled substance laws. Our failure to comply with any of these laws and regulations could severely limit or curtail our pharmacy operations, which would materially harm our business and prospects. Further, our business could be adversely affected by changes in these or any newly enacted laws and regulations, and federal and state agency interpretations of the statutes and regulations. Statutory or regulatory changes could require us to make changes to our business model and operations and/or could require us to incur significantly increased costs to comply with such regulations.

If we or our partner facilities fail to comply with the Controlled Substances Act, FDCA, or similar state statutes and regulations, the pharmacy facilities could be required to cease operations or become subject to restrictions that could adversely affect our business.

State pharmacy laws require pharmacy locations in those states to be licensed as an in-state pharmacy to dispense pharmaceuticals. In addition, state controlled substance laws require registration and compliance with state pharmacy licensure, registration or permit standards promulgated by the state's pharmacy licensing authority. Pharmacy and controlled substance laws often address the qualification of an applicant's personnel, the adequacy of its prescription fulfillment and inventory control practices and the adequacy of its facilities. These laws also subject pharmacies to oversight by state boards of pharmacy and other regulators that could impose burdensome requirements or restrictions on operations if a pharmacy is found not in compliance with these laws. We believe that our ImprimisRx compounding pharmacies are in material compliance with applicable regulatory requirements. If any of our ImprimisRx compounding pharmacies fail to comply with such requirements, they could be forced to permanently or temporarily cease or limit their sterile compounding operations, which would severely limit our ability to market and sell our proprietary formulations and would materially harm our operations and prospects. Any noncompliance could also result in complaints or adverse actions by other state boards of pharmacy. FDA inspection of a facility to determine compliance with the FDCA, if not successful, may result in the loss of FDCA exemptions provided under Section 503A, warning letters, injunctions, prosecution, fines and loss of required government licenses, certifications and approvals, any of which could involve significant costs and could cause us to be unable to realize the expected benefits of these pharmacies' operations.

Further, under federal law, Section 503A of the FDCA seeks to limit the amount of compounded products that a pharmacy can dispense interstate. The interpretation and enforcement of this provision is dependent on the FDA entering into a standard Memorandum of Understanding (MOU) with each state setting forth limits on interstate compounding. The current draft standard MOU presented by the FDA in February 2015 would limit interstate shipments of compounded drug units to 30% of all compounded and non-compounded units dispensed or distributed by the pharmacy per month. The FDA has stated in guidance issued in February 2015 that it will not enforce interstate restrictions until after it publishes a final standard MOU and has made it available to states for signature for some designated period of time. If the final standard MOU is not signed by a particular state, then interstate shipments of compounded preparations from a pharmacy located in that state would be limited to quantities not greater than 5% of total prescription orders dispensed or distributed by the pharmacy (the 5% rule); however, we are not aware that the FDA currently enforces or has in the past enforced the 5% rule and, under current draft guidance, the FDA has stated that it will not enforce the 5% rule until a standard MOU has been made available to states for signature. The FDA has proposed a 180-day period for states to agree to the standard MOU after the final version is presented, after which it would begin to enforce the 5% rule. Until a final MOU is issued and presented to states to consider, the extent of interstate dispensing restrictions imposed by Section 503A is unknown. However, if the final standard MOU contains a 30% limit on interstate distribution or if the FDA begins to enforce the 5% rule, our pharmacy operations could be materially limited.

There are many competitive risks related to marketing and selling our proprietary formulations and operating our compounding pharmacy business.

The pharmaceutical and pharmacy industries are highly competitive. We compete against branded drug companies, generic drug companies, outsourcing facilities and other compounding pharmacies. We are significantly smaller than some of our competitors. Currently we lack some of the financial and other resources needed to develop, produce, distribute and market our proprietary formulations at a level to capture a significant market share in these sectors. The drug products available through branded and generic drug companies with which our formulations compete have been approved for marketing and sale by the FDA and are required to be manufactured in facilities compliant with cGMP standards. Although we prepare our compounded formulations in accordance with the standards provided by the United States Pharmacopeia (“USP”) <795> and USP <797> and applicable state and federal law, our proprietary compounded formulations are not required to be, and have not been, approved for marketing and sale by the FDA. As a result, some physicians may be unwilling to prescribe, and some patients may be unwilling to use, our formulations. Additionally, under federal and state laws applicable to our current compounding pharmacy operations, we are not permitted to prepare significant amounts of a specific formulation in advance of a prescription, compound quantities for office use or utilize a wholesaler for distribution of our formulations; instead, our compounded formulations must be prepared and dispensed in connection with a physician prescription for an individually identified patient. Pharmaceutical companies, on the other hand, are able to sell their FDA-approved products to large pharmaceutical wholesalers, which can in turn sell to and supply hospitals and retail pharmacies. Even if we are successful in registering certain of our facilities as outsourcing facilities, our business may not be scalable on the scope available to our competitors that produce FDA-approved drugs, which may limit our potential for profitable operations. These facets of our operations may subject our business to limitations our competitors with FDA-approved drugs may not face.

Our future success depends in large part on our ability to maintain a competitive position with respect to biotechnology and related pharmaceutical technologies.

Biotechnology and related pharmaceutical technologies have undergone and continue to be subject to rapid and significant change. Our future success will depend in large part on our ability to maintain a competitive position with respect to these technologies. Products developed by our competitors, including FDA-approved drugs and compounded formulations created by other pharmacies, could render our products and technologies obsolete or unable to compete. Any products that we develop may become obsolete before we recover expenses incurred in their development, which may require us to raise additional funds that may or may not be available. The competitive environment requires an ongoing, extensive search for medical and technological innovations and the ability to develop and market these innovations effectively, and we may not be competitive with respect to these factors. Other competitive factors include the safety and efficacy of a product, the size of the market for a product, the timing of market entry relative to competitive products, the availability of alternative compounded formulations or approved drugs, the price of a product relative to alternative products, the availability of third-party reimbursement, the success of sales and marketing efforts, brand recognition and the availability of scientific and technical information about a product. Although we believe we are positioned to compete favorably with respect to many of these factors, if our proprietary formulations are unable to compete with the products of our competitors, we may never gain market share or achieve profitability.

If a compounded drug formulation provided through our compounding services leads to patient injury or death or results in a product recall, we may be exposed to significant liabilities and reputational harm.

The success of our business, including our proprietary formulations and pharmacy operations, is highly dependent upon medical and patient perceptions of us and the actual safety and quality of our products. We could be adversely affected if we, any other compounding pharmacies or our formulations and technologies are subject to negative publicity. We could also be adversely affected if any of our formulations or other products we sell, any similar products sold by other companies, or any products sold by other compounding pharmacies prove to be, or are asserted to be, harmful to patients. For instance, if any of the components of approved drugs or other ingredients used to produce our compounded formulations have quality or other problems that adversely affect the finished compounded preparations, our sales could be adversely affected. Because of our dependence upon medical and patient perceptions, adverse publicity associated with illness or other adverse effects resulting from the use or misuse of our products, any similar products sold by other companies, or any other compounded formulations could have a material adverse impact on our business.

To assure compliance with USP guidelines, we have a policy whereby 100% of all sterile compound batches produced by our ImprimisRx compounding pharmacies are tested prior to their delivery to patients and physicians both in-house and externally by an independent, FDA-registered laboratory that has represented to us that it operates in compliance with current good laboratory practices. However, we could still become subject to product recalls and termination or suspension of our state pharmacy licenses if we fail to fully implement this policy, if the laboratory testing does not identify all contaminated products, or if our products otherwise cause or appear to have caused injury or harm to patients. In addition, laboratory testing may produce false positives, which could harm our business and impact our pharmacy operations and licensure even if the impacted formulations are ultimately found to be sterile and no patients are harmed by them. If adverse events or deaths or a product recall, either voluntarily or as required by the FDA or a state board of pharmacy, were associated with one of our proprietary formulations or any compounds prepared by our ImprimisRx compounding pharmacies or any pharmacy partner, our reputation could suffer, physicians may be unwilling to prescribe our proprietary formulations or order any prescriptions from such pharmacies, we could become subject to product and professional liability lawsuits, and our state pharmacy licenses could be terminated or restricted. If any of these events were to occur, we may be subject to significant litigation or other costs and loss of revenue, and we may be unable to continue our pharmacy operations and further develop and commercialize our proprietary formulations.

We carry product and professional liability insurance which may be inadequate.

Although we have secured product and professional liability insurance for our pharmacy operations and the marketing and sale of our formulations, our current or future insurance coverage may prove insufficient to cover any liability claims brought against us. Because of the increasing costs of insurance coverage, we may not be able to maintain insurance coverage at a reasonable cost or at a level adequate to satisfy liabilities that may arise.

Our ability to generate revenues will be diminished if we fail to obtain acceptable prices or an adequate level of reimbursement from third-party payors.

Currently, our ImprimisRx compounding pharmacies operate on mostly a cash-pay basis and do not submit large amounts of claims for reimbursement through Medicare, Medicaid or other third-party payors. As part of our Imprimis Cares initiative, we work with third-party insurers, pharmacy benefit managers and buying groups to offer patient-specific customizable compounded formulations at accessible prices. We plan to continue to devote time and other resources to seek reimbursement and patient pay opportunities for these and other compounded formulations. We have hired pharmacy billers to process certain existing reimbursement opportunities for certain formulations. However, we may be unsuccessful in achieving these goals, as many third-party payors have imposed significant restrictions on reimbursement for compounded formulations in recent years. Moreover, third-party payors, including Medicare, are attempting to contain health care costs by limiting coverage and the level of reimbursement for new drugs and by refusing, in some cases, to provide coverage for uses of approved products for disease indications for which the FDA has not granted labeling approval. Further, the Health Reform Law may have a considerable impact on the existing U.S. system for the delivery and financing of health care and could conceivable have a material effect on our business. As a result, reimbursement from Medicare, Medicaid and other third-party payors may never be available for any of our products or, if available, may not be sufficient to allow us to sell the products on a competitive basis and at desirable price points. If government and other third-party payors do not provide adequate coverage and reimbursement levels for our formulations, the market acceptance for our formulations may be limited.

Additionally, we are making efforts to normalize the pricing for our currently available proprietary compounded formulations. Any efforts to attain optimized pricing for our Dropless Therapy or any of our other proprietary formulations could fail, which could make our products less attractive or unavailable to some patients or could reduce our margins.

We may not be able to correctly estimate our future operating expenses, which could lead to cash shortfalls.

The estimates of our future operating and capital expenditures are based upon our current business plan, our current operations and our current expectations regarding the commercialization of our proprietary formulations. Our projections have varied significantly in the past as a result of changes to our business model and strategy, our termination of efforts to pursue FDA approval of a product candidate in November 2013, our acquisitions of the ImprimisRx compounding pharmacies and various product development opportunities in 2014 and 2015, and the expenses in developing our pharmacy facilities into outsourcing facilities and registering them as such with the FDA. We may not accurately estimate the potential revenues and expenses of our operations. If we are unable to correctly estimate the amount of cash necessary to fund our business, we could spend our available financial resources much faster than we expect. If we do not have sufficient funds to continue to operate and develop our business, we could be required to seek additional financing earlier than we expect, which may not be available when needed or at all, or be forced to delay, scale back or eliminate some or all of our proposed operations.

If we do not successfully identify and acquire rights to potential formulations and successfully integrate them into our operations, our growth opportunities may be limited.

We plan to pursue the development of new proprietary compounded formulations in the ophthalmology, urology, otolaryngology and/or other therapeutic areas, which may include continued activities to develop and commercialize current assets or, if and as opportunities arise, potential acquisitions of new intellectual property rights and assets. We also intend to seek opportunities to introduce new lower-cost compounded formulation alternatives to higher-priced FDA-approved drugs, as part of our Imprimis Cares initiative. However, we expect acquisitions of compounding pharmacies to provide us with only limited research and development support and access to additional novel compounded formulations. We have historically relied, and we expect to continue to rely, primarily upon third parties to provide us with additional development opportunities. We may seek to enter into acquisition agreements or licensing arrangements to obtain rights to develop new formulations in the future, but only if we are able to identify attractive formulations and negotiate acquisition or license agreements on terms acceptable to us, which we may not be able to do. Moreover, we have limited resources to acquire additional potential product development assets and integrate them into our business. Acquisition opportunities may involve competition among several potential purchasers, which could include large multi-national pharmaceutical companies and other competitors that have access to greater financial resources than we do. If we are unable to obtain rights to development opportunities from third parties and we are unable to rely upon our ImprimisRx compounding pharmacies and current and future relationships with pharmacists, physicians and other inventors to provide us with additional development opportunities, our growth and prospects could be limited.

Our product development strategy is to focus on a select few therapeutic areas in which we believe there is broad market potential, large unmet needs and/or unique value to physicians and patients and to develop and offer formulations within these therapeutic areas that could afford us with gross margins. However, our expectations and assumptions about market potential and patient needs may prove to be wrong and we may invest capital and other resources on formulations that do not generate sufficient revenues for us to recoup our investment.

We may be unable to successfully develop and commercialize our proprietary formulations or any other assets we may acquire.

We have acquired assets related to compoundable formulations and we have entered into one license agreement for rights to commercialize a compounding formulation. We are currently pursuing development and commercialization opportunities with respect to certain of these formulations, and we are in the process of assessing certain of our other assets in order to determine whether to pursue their development or commercialization. In addition, we expect to consider the acquisition of additional intellectual property rights or other assets in the future. Once we determine to pursue a potential product candidate, we develop a commercialization strategy for it, which may include marketing and selling the formulation in compounded form through compounding pharmacies or outsourcing facilities, or pursuing FDA approval of the product candidate. We may incorrectly assess the risks and benefits of the commercialization options or we may not pursue a commercialization strategy that proves to be successful. If we are unable to successfully commercialize one or more of our proprietary formulations, our operating results would be adversely affected. Even if we are able to successfully sell one or more proprietary formulations, we may never recoup our investment in acquiring or developing the formulations. Our failure to identify and expend our resources on formulations and technologies with commercial potential and execute an effective commercialization strategy for each of our formulations would negatively impact the long-term profitability of our business.

We have incurred significant indebtedness, which will require substantial cash to service and which subjects us to certain financial requirements and business restrictions.

On May 11, 2015, we incurred $10,000 of indebtedness under a loan agreement with IMMY Funding LLC (LSAF), an affiliate of Life Sciences Alternative Funding LLC, and on January 22, 2016, we incurred an additional $3,000 of indebtedness under a convertible note we issued to LSAF. On December 27, 2016, we entered into an exchange and discharge agreement with LSAF to exchange the $3,000 convertible note for a $3,000 term loan. The outstanding principal amounts due to LSAF, collectively, including any interest that has been paid in kind of the principal balance, in aggregate, is $13,332.

Our ability to make scheduled payments on our indebtedness depends on our future performance and ability to raise additional capital, which is subject to economic, financial, competitive and other factors, some of which are beyond our control. If we are unable to generate sufficient cash to service our debt, we may be required to adopt one or more alternatives, such as selling assets, restructuring our debt or obtaining additional capital through equity sales or incurrence of additional debt on terms that may be onerous or highly dilutive to our stockholders. Our ability to engage in any of these activities would depend on the capital markets and our financial condition at such time, and we may not be able to do so when needed, on desirable terms or at all, which could result in a default on our debt obligations. Additionally, our LSAF debt instruments contain various restrictive covenants, including, among others, our obligation to deliver to LSAF certain financial and other information, our obligation to comply with certain notice and insurance requirements, and our inability, without LSAF's prior consent, to dispose of certain of our assets, incur certain additional indebtedness, enter into certain merger, acquisition or change of control transactions, pay certain dividends or distributions on or repurchase any of our capital stock or incur any lien or other encumbrance on our assets, subject to certain permitted exceptions. Any failure by us to comply with any of these covenants, subject to certain cure periods, or to make all payments under the debt instruments when due, would cause us to be in default under the applicable debt instrument. In the event of any such default, LSAF may be able to foreclose on our assets that secure the debt or declare all borrowed funds, together with accrued and unpaid interest, immediately due and payable, thereby potentially causing all of our available cash to be used to pay our indebtedness or forcing us into bankruptcy or liquidation if we do not then have sufficient cash available. Any such event or occurrence could severely and negatively impact our operations and prospects.

We may need additional capital in order to continue operating our business, and such additional funds may not be available when needed, on acceptable terms, or at all.

We only recently started generating cash from operations, but we do not currently receive sufficient revenues to support our operations. We may need significant additional capital to execute our business plan and fund our proposed business operations. Additionally, our plans may change or the estimates of our operating expenses and working capital requirements could be inaccurate, we may pursue acquisitions of pharmacies or other strategic transactions that involve large expenditures, or we may experience growth more quickly or on a larger scale than we expect, any of which may result in the depletion of capital resources more rapidly than anticipated and could require us to seek additional financing earlier than we expect to support our operations.

We have raised over $40,000 in funds through equity and debt financings since January 2015. We may seek to obtain additional capital through equity or debt financings, funding from corporate partnerships or licensing arrangements, sales of assets or other financing transactions. If we issue additional equity or convertible debt securities to raise funds, our existing stockholders may experience substantial dilution, and the newly issued equity or debt securities may have more favorable terms or rights, preferences and privileges senior to those of our existing stockholders. If we raise additional funds through collaboration and licensing arrangements or sales of assets, we may have to relinquish potentially valuable rights to our product candidates or proprietary technologies, or grant licenses on terms that are not favorable to us. If we raise funds by incurring additional debt, we may be required to pay significant interest expenses and our leverage relative to our earnings or to our equity capitalization may increase. Obtaining commercial loans, assuming those loans would be available, would increase our liabilities and future cash commitments and may impose restrictions on our activities, such as the financial and operating covenants included in our loan agreement and convertible note with LSAF. Further, we may incur substantial costs in pursuing future capital and/or financing transactions, including investment banking fees, legal fees, accounting fees, printing and distribution expenses and other costs. We may also be required to recognize non-cash expenses in connection with certain securities we may issue, such as options, convertible notes and warrants, which would adversely impact our financial results.

We have in the past and may in the future participate in strategic transactions that could impact our liquidity, increase our expenses and distract our management.

From time to time we consider engaging in strategic transactions, such as out-licensing or in-licensing of compounds or technologies, acquisitions of companies, and asset purchases. We may also consider a variety of different business arrangements in the future, including strategic partnerships, joint ventures, spin-offs, restructurings, divestitures, business combinations and investments. In addition, another entity may pursue us or certain of our assets or aspects of our operations as an acquisition target. Any such transactions may require us to incur expenses specific to the transaction and not incident to our operations, may increase our near- and long-term expenditures, may pose significant integration challenges, may require us to hire or otherwise engage personnel with additional expertise, or may result in our selling or licensing of our assets or technologies under terms that may not prove profitable, any of which could harm our operations and financial results. Such transactions may also entail numerous other operational and financial risks, including, among others, exposure to unknown liabilities, disruption of our business and diversion of our management's time and attention in order to develop acquired products, product candidates, technologies or businesses.

As part of our efforts to complete any significant transaction, we would need to expend significant resources to conduct business, legal and financial due diligence, with the goal of identifying and evaluating material risks involved in the transaction. We may be unsuccessful in ascertaining or evaluating all the risks and, as a result, we may not realize the expected benefits of the transaction, whether due to unidentified risks, integration difficulties, regulatory setbacks or other events. We may incur material liabilities for the past activities of any businesses we partner with or acquire. If any of these events occur, we could be subject to significant costs and damage to our reputation, business, results of operations and financial condition.

If we are unable to establish, train and maintain an effective sales and marketing infrastructure, we will not be able to commercialize our product candidates successfully.

We have started to build an internal sales and marketing infrastructure to implement our business plan by developing internal sales teams and education campaigns to market our proprietary formulations. We will need to expend significant resources to further establish and grow this internal infrastructure and properly train sales personnel with respect to regulatory compliance matters. We may also choose to engage or enter into other arrangements with third parties to provide sales and marketing services for us in place of or to supplement our internal commercialization infrastructure. We may not be able to secure sales personnel or relationships with third-party sales organizations that are adequate in number or expertise to successfully market and sell our proprietary formulations and pharmacy services. Further, any third-party organizations we may seek to partner with or engage may not be able to provide sales and marketing services in accordance with our expectations and standards, may be more expensive than we can afford or may not be available on otherwise acceptable terms or at all. If we are unable to establish and maintain compliant and adequate sales and marketing capabilities, through our own internal infrastructure or third-party services or other arrangements, we may be unable to sell our formulations or services or generate meaningful revenue.

Our business and operations would suffer in the event of cybersecurity or other system failures.

Despite the implementation of security measures, our internal computer systems and those of any third parties with which we partner are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. While we have not experienced any cybersecurity or system failure, accident or breach to date, if an event were to occur, it could result in a material disruption of our operations, substantial costs to rectify or correct the failure, if possible, and potentially violation of HIPAA and other privacy laws applicable to our operations. If any disruption or security breach resulted in a loss of or damage to our data or applications or inappropriate disclosure of confidential or protected information, we could incur liability, further development of our proprietary formulations could be delayed, and our pharmacy operations could be disrupted, subject to restriction or forced to terminate their operations, any of which could severely harm our business and prospects.

We depend upon consultants, outside contractors and other third-party service providers for key aspects of our business.

We are substantially dependent on consultants and other outside contractors and service providers for key aspects of our business. For instance, we rely upon pharmacist, physician and research consultants and advisors to provide us with significant assistance in the evaluation of product development opportunities, and we have engaged or supported, and expect to continue to engage or support, consultants, advisors, clinical research organizations (CROs) and others to design, conduct, analyze and interpret the results of any clinical or non-clinical trials or other studies in connection with the research and development of our products. If any of our consultants or other service providers terminates its engagement with us, or if we are unable to engage highly qualified replacements as needed on commercially reasonable terms, we may be unable to successfully execute our business plan. We must effectively manage these third-party service providers to ensure that they successfully carry out their contractual obligations and meet expected deadlines. However, these third parties often engage in other business activities and may not devote sufficient time and attention to our activities and we may have only limited contractual rights in connection with the conduct of the activities we have engaged the service providers to perform. If we are unable to effectively manage our outsourced activities or if the quality, timeliness or accuracy of the services provided by third-party service providers is compromised for any reason, our development activities may be extended, delayed or terminated, and we may not be able to commercialize our formulations or advance our business.

If we seek FDA approval to market and sell any of our proprietary formulations, we may be unable to demonstrate the necessary safety and efficacy to obtain such FDA approval.

Our current business strategy is focused on developing and commercializing product opportunities as compounded formulations. In the future we, alone or with project partners, may seek FDA regulatory approval to market and sell one or more of our assets as a FDA-approved drug. Obtaining FDA approval to market and sell pharmaceutical products is costly, time consuming, uncertain and subject to unanticipated delays. The FDA or other regulatory agencies may not approve a product candidate on a timely basis or at all. Before we obtain FDA approval for the sale of any potential product candidates, we will be required to demonstrate through preclinical studies and clinical trials that it is safe and effective for each intended use, which we may not be able to do. A failure to demonstrate safety and efficacy of a product candidate to the FDA's satisfaction would result in our failure to obtain FDA approval. Moreover, even if the FDA were to grant regulatory approval of a product candidate, the approval may be limited to specific therapeutic areas or limited as to its distribution, which could reduce revenue potential, and we will be subject to extensive and costly post-approval requirements and oversight with respect to commercialization of the product candidate.

Delays in the completion of, or the termination of, any clinical or non-clinical trials for any product candidates for which we may seek FDA approval could adversely affect our business.

Clinical trials are very expensive, time consuming, unpredictable and difficult to design and implement. The results of clinical trials may be unfavorable, they may continue for several years, and they may take significantly longer to complete and involve significantly more costs than expected. Delays in the commencement or completion of clinical testing could significantly affect product development costs and plans with respect to any product candidate for which we seek FDA approval. The commencement and completion of clinical trials can be delayed and experience difficulties for a number of reasons, including delays and difficulties caused by circumstances over which we may have no control. For instance, approvals of the scope, design or trial site may not be obtained from the FDA and other required bodies in a timely manner or at all, agreements with acceptable terms may not be reached in a timely manner or at all with CROs to conduct the trials, a sufficient number of subjects may not be recruited and enrolled in the trials, and third-party manufacturers of the materials for use in the trials may encounter delays and problems in the manufacturing process, including failure to produce materials in sufficient quantities or of an acceptable quality to complete the trials. If we were to experience delays in the commencement or completion of, or if we were to terminate, any clinical or non-clinical trials we pursue in the future, the commercial prospects for the applicable product candidates may be limited or eliminated, which may prevent us from recouping our investment in research and development efforts for the product candidate and would have a material adverse effect on our business, results of operations, financial condition and prospects.

Even if we successfully develop any product candidate into an FDA-approved drug, failure to comply with continuing federal and state regulations could result in the loss of approvals to market the drug.

Even if we successfully develop any product candidate into an FDA-approved drug, we will be subject to extensive continuing regulatory requirements and review, including review of adverse drug experiences and clinical results from any post-marketing tests or continued actions required as a condition of approval. The manufacturer and manufacturing facilities we use to produce any drug preparations will be subject to periodic review and inspection by the FDA. We will be reliant on third parties to maintain their manufacturing processes in compliance with FDA and all other applicable regulatory requirements. Any changes to a product that has been approval, including the way it is manufactured or promoted, will often require FDA approval again before the product, as modified, may be marketed and sold. In addition, we and the manufacturers of the drug will be subject to ongoing FDA requirements for submission of safety and other post-market information. If we or the manufacturers of the drug failed to comply with these or any other applicable regulatory requirements, a regulatory agency may, among other things, issue warning letters, impose civil or criminal penalties, suspend or withdraw regulatory approval, impose restrictions on our operations, close the facilities of the manufacturers, seize or detain products or require a product recall.

Regulatory review also covers a company's activities in the promotion of its FDA-approved drugs, with significant potential penalties and restrictions for promotion of a drug for an unapproved use. Sales and marketing programs are under scrutiny for compliance with various mandated requirements, such as illegal promotions to health care professionals. Failure to comply with these requirements could expose us to negative publicity, fines and penalties that could harm our business.

If we are unable to protect our proprietary rights, we may not be able to prevent others from using our intellectual property, which may reduce the competitiveness and value of the related assets.

Our success will depend in part on our ability to obtain and maintain patent protection for our formulations and technologies and to prevent third parties from infringing upon our proprietary rights. We must also operate without infringing upon patents and proprietary rights of others, including by obtaining appropriate licenses to patents or other proprietary rights held by third parties, if necessary. The primary means by which we will be able to protect our formulations and technologies from unauthorized use by third parties is to obtain valid and enforceable patents that cover them. Currently, we own 26 U.S. patents or patent applications, including 21 utility and five provisional patent applications, and we own five international patent applications filed under the Patent Cooperation Treaty and 19 foreign patent applications. However, the applications we have filed or may file in the future may never yield patents that protect our inventions and intellectual property assets. Failure to obtain patents that sufficiently cover our formulations and technologies would limit our protection against other compounding pharmacies and outsourcing facilities, generic drug manufacturers, pharmaceutical companies and other parties who may seek to copy our products, produce products substantially similar to ours or use technologies substantially similar to those we own. We have made, and expect to continue to make, significant investments in certain of our proprietary formulations prior to the grant of any patents covering these formulations, and we may not receive a sufficient return on these investments if patent coverage or other appropriate intellectual property protection is not obtained and their competitiveness and value decreases.

The patent and intellectual property positions of pharmacies and pharmaceutical companies, including ours, are uncertain and involve complex legal and factual questions. There is no guarantee that we have developed or obtained or will in the future develop or obtain the rights to products or processes that are patentable, that patents will issue from any pending applications or that claims allowed will be sufficient to protect the technology we have developed or may in the future develop or to which we have acquired or may in the future acquire development rights. In addition, we cannot be certain that patents issued to us will not be challenged, invalidated, infringed or circumvented, including by our competitors, or that the rights granted thereunder will provide competitive advantages to us.

We also rely on unpatented trade secrets and know-how and continuing technological innovation in order to develop our formulations, which we seek to protect, in part, by confidentiality agreements with our employees, consultants, collaborators and others, including certain service providers. We also have invention or patent assignment agreements with our current employees and certain consultants. Nonetheless, our employees and consultants may breach these agreements, and we may not have adequate remedies for the breach. Our trade secrets may otherwise become known or be independently discovered by competitors or could be developed by a person not bound by an invention assignment agreement with us, in which case we may have no rights to use the applicable invention.

We may face additional competition outside of the U.S. as a result of a lack of patent coverage in some territories and differences in patent prosecution and enforcement laws in foreign counties.

Filing, prosecuting, defending and enforcing patents on our proprietary formulations throughout the world is extremely expensive. We do not currently have patent protection outside of the U.S. that covers any of our proprietary formulations or other assets that we are currently pursuing. Competitors may use our technologies to develop their own products in jurisdictions where we have not obtained patent protection.

Even if the international patent applications we have filed or may in the future file are issued or approved, it is likely that the scope of protection provided by such patents would be different from, and possibly less than, the scope provided by corresponding U.S. patents. As a result, patent rights we are able to obtain may not be sufficient to prevent generic competition. Further, the extent of our international market opportunity may be dependent upon the enforcement of patent rights in various other countries. A number of countries in which we could file patent applications have a history of weak enforcement and/or compulsory licensing of intellectual property rights. Moreover, the legal systems of certain countries, particularly certain developing countries, do not favor the aggressive enforcement of patents and other intellectual property protection, particularly those relating to biotechnology and/or pharmaceuticals, which would make it difficult for us to stop a third party from infringing any of our intellectual property rights. Moreover, attempting to enforce our patent rights in foreign jurisdictions could result in substantial costs and divert our efforts and attention from other aspects of our business.

Our proprietary formulations and technologies could potentially conflict with the rights of others.

The preparation or sale of our proprietary formulations and use of our technologies may infringe on the patent or other intellectual property rights of others. If our products infringe or conflict with the patent or other intellectual property rights of others, third parties could bring legal actions against us claiming damages and seeking to enjoin our manufacturing and marketing of our affected products. Patent litigation is costly and time consuming and may divert management’s attention and our resources. We may not have sufficient resources to bring any actions to a successful conclusion. If we are not successful in defending against these legal actions should they arise, we may be subject to monetary liability or be forced to alter our products, cease some or all of our operations relating to the affected products, or seek to obtain a license in order to continue manufacturing and marketing the affected products, which may not available on acceptable terms or at all.

If we are unable to attract and retain key personnel and consultants, we may be unable to maintain or expand our business.

We have been focusing on building our management, pharmacy, research and development, sales and marketing and other personnel to pursue our current business model. To achieve our planned growth, we may have significant difficulty attracting and retaining necessary employees. Because of the specialized nature of our business, the ability to develop products and to compete will remain highly dependent upon our ability to attract and retain qualified pharmacy, scientific, technical and commercial employees and consultants. There is intense competition for qualified personnel in our industry, and we may be unable to continue to attract and retain the qualified personnel necessary for the development of our business. The loss of key employees or consultants or the failure to recruit or engage new employees and consultants could have a material adverse effect on our business.

Changes in the healthcare industry that are beyond our control may have an adverse impact on our business.

The healthcare industry is changing rapidly as consumers, governments, medical professionals and the pharmaceutical industry examine ways to broaden medical coverage while controlling the increase in healthcare costs. Such changes could include changes to make the government's Medicare and Medicaid reimbursement programs more restrictive, which could limit or curtail the potential for our proprietary formulations to obtain eligibility for reimbursement from such payors, or changes to expand the reach of HIPAA or other health privacy laws, which could make compliance with these laws more costly and burdensome. Further, the Health Reform Law may have a considerable impact on the existing U.S. system for the delivery and financing of health care and conceivably could have a material effect on our business. Any changes to laws and regulations affecting the healthcare industry could impose significant additional costs on our operations in order to maintain compliance or could otherwise negatively affect our business, operations or financial performance.

Risks Related to Our Common Stock

Because of their significant stock ownership, some of our existing stockholders are able to exert control over us and our significant corporate decisions.

Our executive officers and directors collectively own, or have the right to acquire within 60 days after May 9, 2017, approximately 12% of our common stock that would be outstanding following such issuances. These persons, acting together, have the ability to exercise significant influence over or control the outcome of all matters submitted to our stockholders for approval, including the election and removal of directors and any significant transaction involving us, and to control our management and affairs. Additionally, since our Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws permit our stockholders to act by written consent, a limited number of stockholders may approve stockholder actions without holding a meeting of stockholders. This concentration of ownership may harm the market price of our common stock by, among other things: delaying, deferring, or preventing a change in control of our Company or changes to our board of directors; impeding a merger, consolidation, takeover or other business combination involving our Company; causing us to enter into transactions or agreements that are not in the best interests of all stockholders; or discouraging a potential acquiror from making a tender offer or otherwise attempting to obtain control of our Company.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results, which could cause our stock price to fall.

Effective internal controls are necessary for us to provide reliable financial results. If we cannot provide reliable financial results, our financial statements could be misstated, our reputation may be harmed and the trading price of our common stock could decline. As we discussed in Item 9A of our 2016 Annual Report, our management concluded that our internal controls over financial reporting were effective as of December 31, 2016. However, our controls over financial processes and reporting may not continue to be effective or we may identify material weaknesses or significant deficiencies in our internal controls in the future. Any failure to remediate any future material weaknesses or successfully implement required new or improved controls, could harm our operating results, cause us to fail to meet our reporting obligations or result in material misstatements in our financial statements or other public disclosures. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock.

A consistently active trading market for shares of our common stock may not be sustained.

Historically, trading in our common stock has been sporadic and volatile and our common stock has been "thinly-traded." There have been, and may in the future be, extended periods when trading activity in our shares is minimal, as compared to a seasoned issuer with a large and steady volume of trading activity. The market for our common stock is also characterized by significant price volatility compared to seasoned issuers, and we expect that such volatility may continue. As a result, the trading of relatively small quantities of shares may disproportionately influence the market price of our common stock. A consistently active and liquid trading market in our securities may never develop or be sustained.

Our stock price may be volatile.

The market price of our common stock is likely to be highly volatile and could fluctuate widely in response to various factors, many of which are beyond our control, including the following: our ability to execute our business plan; operating results that fall below expectations; industry or regulatory developments; investor perception of our industry or our prospects; economic and other external factors; and the other risk factors discussed in this "Risk Factors" section.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

We have the right to issue shares of preferred stock without obtaining stockholder approval. If we were to issue preferred stock, it may have rights, preferences and privileges superior to those of our common stock.

We are authorized to issue 5,000,000 shares of "blank check" preferred stock, with such rights, preferences and privileges as may be determined from time to time by our board of directors. Although we have no shares of preferred stock issued and outstanding and we have no immediate plans to issue shares of preferred stock, our board of directors is empowered, without stockholder approval, to issue preferred stock at any time in one or more series and to fix the dividend rights, dissolution or liquidation preferences, redemption prices, conversion rights, voting rights and other rights, preferences and privileges for any series of our preferred stock that may be issued. The issuance of shares of preferred stock, depending on the rights, preferences and privileges attributable to the preferred stock, could reduce the voting rights and powers of our common stockholders and the portion of our assets allocated for distribution to our common stockholders in a liquidation event, and could also result in dilution to the book value per share of our common stock. The preferred stock could also be utilized, under certain circumstances, as a method for raising additional capital or discouraging, delaying or preventing a change in control of our Company.

We have not paid dividends in the past and do not expect to pay dividends in the future. Any return on an investment will be limited to any appreciation in the value of our common stock.

We have never paid cash dividends on our common stock and do not anticipate doing so in the foreseeable future. Any payment of dividends on our common stock would depend on contractual restrictions, such as those contained in our LSAF loan agreement and convertible note, as well as our earnings, financial condition and other business and economic factors as our board of directors may consider relevant. If we do not pay dividends, our common stock may be less valuable because a return on your investment will only occur if our stock price appreciates.

Offers or availability for sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.

The sale of substantial amounts of our common stock in the public market, or the perception that sales could occur, may cause the market price of our common stock to fall. Sales could occur upon the expiration of any statutory holding period, such as under Rule 144 under the Securities Act of 1933, as amended, applicable to outstanding shares, upon expiration of any lock-up periods applicable to outstanding shares, upon our issuance of shares upon the exercise of outstanding options or warrants, or upon our issuance of shares pursuant offerings of our equity securities. The availability for sale of a substantial number of shares of our common stock, whether or not sales have occurred or are occurring, also could make it more difficult for us to raise additional financing through the sale of equity or equity-related securities in the future when needed, on acceptable terms or at all.

Item 2. Unregistered Sales of Equity Securities

In March 2017, the Company issued 25,000 shares of its restricted common stock, with a fair value of $60, as payment for investor relations related services. These securities have not been registered under the Securities Act and have been issued in reliance on an exemption from the registration requirements of the Securities Act afforded by Section 4(2) thereof. These securities may not be offered or sold in the United States in the absence of an effective registration statement or exemption from applicable registration requirements. In determining that each of the issuances qualified for an exemption under Section 4(2) of the Securities Act, we relied on the following facts: in each case, the securities were offered to a single individual or entity in consideration for services performed for the Company; and the securities issued were restricted securities.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
10.1	Form of Securities Purchase Agreement, dated March 21, 2017, between the Registrant and the Investors (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on March 22, 2017)
10.2	Stock Purchase Agreement dated February 13, 2017 between Imprimis Pharmaceuticals, Inc. and Livernois & London, LLC (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on February 17, 2017)
31.1*	Certification of Mark L. Baum, principal executive officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes- Oxley Act of 2002.
31.2*	Certification of Andrew R. Boll, principal financial and accounting officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes- Oxley Act of 2002.
32.1**	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Mark L. Baum, principal executive officer, and Andrew R. Boll, principal financial and accounting officer.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.
** Furnished herewith.

SIGNATURES

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

Imprimis Pharmaceuticals, Inc.

Dated: May 10, 2017

By: */s/ Mark L. Baum*
Mark L. Baum
Chief Executive Officer and Director
(Principal Executive Officer)

By: */s/ Andrew R. Boll*
Andrew R. Boll
Chief Financial Officer (Principal Financial and Accounting Officer)

EXHIBIT 31.1

CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT

I, Mark L. Baum, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of Imprimis Pharmaceuticals, Inc.;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in the report any change in this registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2017

/s/ Mark L. Baum

Mark L. Baum
Chief Executive Officer
Principal Executive Officer

EXHIBIT 31.2

CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT

I, Andrew R. Boll, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of Imprimis Pharmaceuticals, Inc.;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in the report any change in this registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2017

/s/ Andrew R. Boll

Andrew R. Boll
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION REQUIRED BY
SECTION 1350 OF TITLE 18 OF THE UNITED STATES CODE

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned hereby certifies in his capacity as the specified officer of Imprimis Pharmaceuticals, Inc. (the "Company"), that, to the best of his knowledge, the Quarterly Report of the Company on Form 10-Q for the fiscal quarter ended March 31, 2017 fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods presented in the financial statements included in such report.

Date: May 10, 2017

/s/ Mark L. Baum
Mark L. Baum
Chief Executive Officer
(Principal Executive Officer)

Date: May 10, 2017

/s/ Andrew R. Boll
Andrew R. Boll *Chief Financial Officer*
(Principal Financial and Accounting Officer)

This certification accompanies this Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.