# 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 September 30, 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 November 13, 20,535,889 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)**

| | September 30, 2017 (unaudited) | December 31, 2016 |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | $ 3,867 | $ 8,853 |
| Restricted cash and short-term investments | 200 | 200 |
| Accounts receivable, net | 2,625 | 2,921 |
| Inventories | 2,374 | 1,841 |
| Prepaid expenses and other current assets | 943 | 938 |
| Current portion of note receivable | 95 | - |
| Total current assets | 10,104 | 14,753 |
| Property, plant and equipment, net | 6,419 | 7,295 |
| Intangible assets, net | 2,884 | 2,972 |
| Investment in Eton Pharmaceuticals | 4,272 | - |
| Note receivable, net of current portion | 305 | - |
| Goodwill | 2,227 | 2,227 |
| TOTA L ASSETS | $ 26,211 | $ 27,247 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | $ 4,035 | $ 3,538 |
| Accrued payroll and related liabilities | 1,290 | 1,638 |
| Deferred revenue and customer deposits | 8 | 91 |
| Current portion of deferred acquisition obligation and accrued interest | 158 | 207 |
| Current portion of note payable, net of unamortized debt discount | - | 3,973 |
| Current portion of capital lease obligations, net of unamortized discount | 562 | 458 |
| Total current liabilities | 6,053 | 9,905 |
| Capital lease obligations, net of current portion and unamortized discount | 883 | 1,318 |
| Deferred acquisition obligation, net of current portion | - | 52 |
| Accrued expenses, net of current portion | 800 | 667 |
| Deferred tax liability | 852 | 936 |
| Note payable and paid-in-kind interest, net of unamortized debt discount and current portion | 13,877 | 7,937 |
| TOTAL LIABILITIES | 22,465 | 20,815 |
| STOCKHOLDERS' EQUITY | | |
| Common stock, $0.001 par value, 90,000,000 shares authorized, 20,165,561 and 18,627,915 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively | 20 | 19 |
| Additional paid-in capital | 89,791 | 83,264 |
| Accumulated deficit | (86,065) | (76,851) |
| TOTAL STOCKHOLDERS' EQUITY | 3,746 | 6,432 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 26,211 | $ 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 September 30, 2017 | For the Three Months Ended September 30, 2016 | For the Nine Months Ended September 30, 2017 | For the Nine Months Ended September 30, 2016 |
|---|---|---|---|---|
| Revenues: | | | | |
| Sales, net | $ 6,473 | $ 4,858 | $ 19,411 | $ 14,141 |
| License revenues | 10 | 3 | 26 | 8 |
| Total revenues | 6,483 | 4,861 | 19,437 | 14,149 |
| Cost of sales | (3,403) | (2,339) | (10,048) | (6,760) |
| Gross profit | 3,080 | 2,522 | 9,389 | 7,389 |
| Operating expenses: | | | | |
| Selling and marketing | 1,288 | 1,797 | 5,727 | 5,967 |
| General and administrative | 4,493 | 5,018 | 13,350 | 13,355 |
| Research and development | 63 | 16 | 324 | 138 |
| Impairment of long-lived assets | - | 303 | - | 303 |
| Total operating expenses | 5,844 | 7,134 | 19,401 | 19,763 |
| Loss from operations | (2,764) | (4,612) | (10,012) | (12,374) |
| Other income (expense): | | | | |
| Interest expense, net | (793) | (732) | (2,348) | (1,992) |
| Debt extinguishment loss | (884) | - | (884) | - |
| Change in fair value of derivative liabilities | - | - | - | (113) |
| Investment loss from Eton Pharmaceuticals | (1,237) | - | (1,453) | - |
| Gain on deconsolidation of Eton Pharmaceuticals | - | - | 5,725 | - |
| Loss on sale and disposal of assets | (42) | - | (326) | - |
| Other income, net | - | 1,494 | - | 1,494 |
| Total other income (expense), net | (2,956) | 762 | 714 | (611) |
| Loss before income taxes | (5,720) | (3,850) | (9,298) | (12,985) |
| Income tax benefit, net | 28 | - | 84 | - |
| Net loss | $ (5,692) | $ (3,850) | $ (9,214) | $ (12,985) |
| Basic and diluted net loss per share of common stock | $ (0.28) | $ (0.29) | $ (0.47) | $ (1.05) |
| Weighted average number of shares of common stock outstanding, basic and diluted | 20,273,347 | 13,471,004 | 19,806,759 | 12,404,328 |

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 Nine Months Ended September 30,2017 | For the Nine Months Ended September 30,2016 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | $ (9,214) | $ (12,985) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization of property, plant and equipment | 1,041 | 699 |
| Amortization of intangible assets | 272 | 262 |
| Non-cash gain on contingent acquisition obligation | - | (83) |
| Deferred income taxes | (84) | - |
| Amortization of debt issuance costs and discount | 812 | 829 |
| Debt extinguishment loss | 884 | - |
| Paid-in-kind interest added to principal of note payable | - | 153 |
| Gain on deconsolidation of Eton Pharmaceuticals | (5,725) | - |
| Investment loss from Eton Pharmaceuticals | 1,453 | - |
| Loss on sale and disposal of assets | 326 | - |
| Change in fair value of derivative liabilities | - | 113 |
| Impairment of long-lived assets | - | 303 |
| Stock-based compensation | 2,265 | 2,989 |
| Issuance of warrant related to litigation settlement | - | 115 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 296 | (2,162) |
| Inventories | (946) | (490) |
| Prepaid expenses and other current assets | 45 | (450) |
| Accounts payable and accrued expenses | 497 | 1,648 |
| Accrued payroll and related liabilities | (348) | 93 |
| Deferred revenue and customer deposits | (83) | (11) |
| NET CASH USED IN OPERATING ACTIVITIES | (8,509) | (8,977) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds on sale and disposal of assets | 110 | - |
| Payments on Pharmacy Creations contingent acquisition obligation | - | (100) |
| Investment in restricted marketable securities | - | (300) |
| Investment in patent and trademark assets | (184) | (185) |
| Purchase of Klarity license | (50) | - |
| Purchases of property, plant and equipment | (588) | (6,540) |
| NET CASH USED IN INVESTING ACTIVITIES | (712) | (7,125) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on capital lease obligations | (464) | (119) |
| Net proceeds from public equity offering | 2,940 | 11,088 |
| Payments on Park deferred acquisition obligation | (101) | (145) |
| Proceeds from SWK debt, net of costs | 15,518 | - |
| Principal payments, exit fee and other costs of LSAF debt | (13,999) | - |
| Proceeds from convertible note payable, net of issuance costs | - | 2,772 |
| Proceeds from Essex leaseback, net of issuance costs | - | 1,933 |
| Net proceeds from ATM sales of common stock | 162 | 195 |
| Net proceeds from exercise of warrants and stock options, net of taxes remitted for RSU's | 179 | 55 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 4,235 | 15,779 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (4,986) | (323) |
| CASH AND CASH EQUIVALENTS, beginning of period | 8,853 | 2,685 |
| CASH AND CASH EQUIVALENTS, end of period | $ 3,867 | $ 2,362 |
| | | |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid for income taxes | $ 9 | $ 9 |
| Cash paid for interest | $ 1,045 | $ 984 |
| 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 common stock and to settle contingent acquisition obligation related to the purchase of PC | $ - | $ 302 |
| Issuance of stock options for consulting services included in accounts payable and accrued expenses | $ - | $ 23 |

| | | |
|---|---|---|
| Final fee on note payable recorded as debt discount and included in accrued expenses | $ 800 | $ - |
| Estimated relative fair value of warrants issued in connection with note payable | $ 982 | $ - |
| Purchase of property, plant and equipment included in accounts payable and accrued expenses | $ - | $ 122 |
| Note receivable in connection with sale of assets | $ 410 | $ - |

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 an ophthalmology-focused pharmaceutical company that produces and dispenses high quality innovative compounded medications in all 50 states. Imprimis is dedicated to patient access and affordability to many critical medicines. Headquartered in San Diego, California, Imprimis produces and dispenses its compounded ophthalmology formulations from its New Jersey facilities. Imprimis is the largest shareholder of Eton Pharmaceuticals, Inc., a company it spun out in 2017, owns Surface Pharmaceuticals, Inc. which is focused on development and commercialization of innovative therapeutics for ocular surface diseases utilizing the U.S. Food and Drug Administration's 505(b)(2) regulatory pathway and Park Compounding, a wholly owned, compounding pharmacy.

### 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 and nine months ended September 30, 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 and nine months ended September 30, 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 $9,214 and $12,985 for the nine months ended September 30, 2017 and 2016, respectively, and had an accumulated deficit of $86,065 and $76,851 as of September 30, 2017 and December 31, 2016, respectively. In addition, the Company used cash in operating activities of $8,509 and $8,977 for the nine months ended September 30, 2017 and 2016, respectively.

While there is no assurance, the Company believes its existing cash resources and restricted cash of approximately $4,067 at September 30, 2017, along with proceeds from the Sales Agreement (see and defined in Note 12) 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 of the following which may include, but are not limited to: the sale of assets and/or businesses, obtaining financing through the issuance of equity, debt, or convertible securities; and working to increase revenue growth through 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.

**Investment in Eton Pharmaceuticals, Inc.**

In April 2017, the Company formed Eton Pharmaceuticals, Inc. ("Eton") as a wholly owned subsidiary. In June 2017, Eton entered into and closed on definitive stock purchase agreements with accredited investors for the purchase of Eton's Series A Preferred Stock that resulted in net proceeds to Eton, after deducting placement agent fees and other expenses, of approximately $18,000. At the time of closing, the Company lost voting and ownership control of Eton and it ceased consolidating Eton's financial statements. At the time of deconsolidation, the Company recorded a gain of $5,725 and adjusted the carrying value in Eton to reflect the increased valuation of Eton and the Company's new ownership percent in accordance with Accounting Standard Codification ("ASC") 810-10-40-4(c), *Consolidation*.

The Company owns 3,500,000 common shares (approximately 27% equity interest as of September 30, 2017) of Eton and, uses the equity method of accounting for this investment, as management has determined that the Company has the ability to exercise significant influence over the operating and financial decisions of Eton. Under this method, the Company recognizes earnings and losses of Eton in its financial statements and adjusts the carrying amount of its investment in Eton accordingly. The Company's share of earnings and losses are based on the shares of common stock and in-substance common stock of Eton held by the Company. Any intra-entity profits and losses are eliminated. During the three and nine months ended September 30, 2017, the Company recorded equity in net loss of Eton of $1,237 and $1,453, respectively. As of September 30, 2017, the carrying value of the Company's investment in Eton was $4,272.

**Basic and Diluted Net Loss per Common Share**

Basic net income (loss) per common share is computed by dividing income (loss) attributable to common stockholders for the period by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is computed by dividing the income (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 income (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 9,983,548 and 4,424,397 at September 30, 2017 and 2016, respectively, and are excluded from the calculation of diluted loss per share for the 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 vested RSUs at September 30, 2017 and 2016 was 121,344 and 281,283, respectively.

The following table shows the computation of basic and diluted net loss per share of common stock for the three and nine months ended September 30, 2017 and 2016:

| | For the Three Months Ended September 30, 2017 | For the Three Months Ended September 30, 2016 | For the Nine Months Ended September 30, 2017 | For the Nine Months Ended September 30, 2016 |
|---|---|---|---|---|
| Numerator – net loss | $ (5,692) | $ (3,850) | $ (9,214) | $ (12,985) |
| Denominator – weighted average number of shares outstanding, basic and diluted | 20,273,347 | 13,471,004 | 19,806,759 | 12,404,328 |
| **Net loss per share, basic and diluted** | $ (0.28) | $ (0.29) | $ (0.47) | $ (1.05) |

**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 right of use asset and lease liability 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 right of use asset and lease liability. 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 2017-01, *Business Combinations, Clarifying the Definition of a Business*, which revises the definition of a business and provides new guidance in evaluating when a set of transferred assets and activities is a business. ASU 2017-01 is effective for reporting periods beginning after December 15, 2017 with early adoption permitted. The Company does not expect the ASU 2017-01 to have a material impact on the Company's financial position, 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 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.

In May 2017, the FASB issued ASU 2017-09, *Compensation - Stock Compensation: Scope of Modification Accounting*. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting under Topic 718. An entity should account for effects of a modification unless all of the following are met: (1) the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified; (2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; (3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The amendments in this update are effective for all entities for annual periods and interim periods within those annual periods, beginning after December 15, 2017, which for the Company means January 1, 2018. Early adoption is permitted, including adoption in any interim period for public business entities for reporting periods for which financial statements have not yet been issued. The Company does not expect the adoption of ASU 2017-09 to have a material effect on the Company's financial position, results of operations and cash flows.

**NOTE 3. INVESTMENT IN ETON PHARMACEUTICALS, INC. AND AGREEMENTS - RELATED PARTY TRANSACTIONS**

In May 2017, the Company entered into two asset purchase and license agreements (the "Eton License Agreements") with its previously wholly owned subsidiary, Eton. Pursuant to the terms of the Eton License Agreements, the Company assigned and licensed to Eton certain intellectual property and related rights to develop, formulate, make, sell, and sub-license formulations of synthetic corticotropin and injectable pentoxifylline (collectively, the "Eton Products"). Eton is required to make royalty payments to the Company of three percent (3%) to six percent (6%) of net sales of the Eton Products while any patent rights remain outstanding and for a period up to 15 years following the first commercial sale, whichever is longer. In addition, Eton is required to make certain milestone payments to the Company including payments of $50,000 upon initial patent issuances for each Eton Product. The Eton License Agreements were conditioned upon Eton receiving net proceeds of the sale of its equity securities of not less than $10,000, which occurred in June 2017. See also Note 2, under the subheading *Investment in Eton Pharmaceuticals, Inc.*

On May 1, 2017, the Company and Eton entered into a Management Services Agreement (the "MSA"), whereby the Company provided to Eton certain administrative services and support, including bookkeeping, web services and human resources related activities, and Eton will pay the Company a monthly amount of $10. A 30-day notice of termination was delivered to the Company on August 29, 2017.

As of September 30, 2017, the Company was due $10 from Eton for amounts due under the MSA and included in other current assets on the accompanying condensed consolidated balance sheets.

The Company owns approximately 27% of the voting interests in Eton. The Company's Chief Executive Officer, Mark L. Baum, is a director of Eton, and several employees of the Company (including Mr. Baum and the Company's Chief Financial Officer, Andrew R. Boll) have entered into consulting agreements with Eton.

The unaudited condensed results of operations information of Eton is summarized below (in thousands):

| | From the period beginning April 27, 2017 (inception) to September 30, 2017 |
|---|---|
| Revenues, net | $ - |
| Loss from operations | 5,382 |
| Net loss | $ (5,382) |

The unaudited condensed balance sheet information of Eton is summarized below (in thousands):

| | At September 30, 2017 |
|---|---|
| Current assets | $ 14,501 |
| Total assets | 14,501 |
| | |
| Current liabilities | 297 |
| Stockholders' equity | 14,204 |
| Total liabilities and stockholders' equity | $ 14,501 |

**NOTE 4. RESTRICTED CASH**

The restricted cash at September 30, 2017 and December 31, 2016 consisted of funds held in a money market account. At September 30, 2017 and December 31, 2016, the restricted cash was recorded at amortized cost, which approximates fair value.

At September 30, 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 5. 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 September 30, 2017 and December 31, 2016 was as follows:

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| Raw materials | $ 805 | $ 669 |
| Finished goods | 1,569 | 1,172 |
| Total inventories | $ 2,374 | $ 1,841 |

**NOTE 6. PREPAID EXPENSES AND OTHER CURRENT ASSETS**

Prepaid expenses and other current assets consisted of the following:

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| Prepaid insurance | $ 207 | $ 315 |
| Other prepaid expenses | 553 | 517 |
| Deposits and other current assets | 183 | 106 |
| Total prepaid expenses and other current assets | $ 943 | $ 938 |

**NOTE 7. ASSET SALES AND NOTE RECEIVABLE**

On June 27, 2017, the Company entered into an Asset Purchase Agreement (the “PA Agreement”) with Creative Pharmacy Solutions Central, LLC (the “Buyers”), which closed in July 2017. Under the terms of the PA Agreement, the Company sold substantially all its assets associated with its sinus related business, including but not limited to, certain intellectual property rights, trademarks, copyrights, inventories, equipment, customer lists, databases, permits, licenses, and assignment of the Company’s lease obligation for its Pennsylvania based pharmacy (the “PA Assets”), for a total purchase price of approximately $450.

Under the terms of the PA Agreement, the Buyers, upon closing, paid to the Company an aggregate cash amount of $40. In addition, the Buyers are obligated to pay the remaining $410 in the form of a note that will bear interest at 6% per annum (the “Sellers Note”). The Buyers will make forty-eight monthly cash payments to the Company of $10 following the closing, totaling $462; provided however, that the Buyer will have the option to make a one-time payment of $365 any time prior to December 31, 2017, and the Company will waive any remaining amounts due on the Sellers Note. The principal amount of the Sellers Note may also be reduced by $125, if after a period of 60 days following the closing, certain revenues associated with the PA Assets are less than 60% of the revenues associated with the PA Assets during the 60 days prior to the close of the transaction. There was $400 due under the Sellers Note as of September 30, 2017.

At September 30, 2017, future minimum payments to the Company under its note receivable were as follows:

| | Amount |
|---|---|
| Remainder of 2017 | $ 24 |
| 2018 | 116 |
| 2019 | 116 |
| 2020 | 116 |
| 2021 | 77 |
| Total minimum payments | 448 |
| Less: amount representing interest income | 48 |
| Present value of future minimum note receivable | 400 |
| Less: current portion | 95 |
| Note receivable net of current portion | $ 305 |

The Company recorded a loss of $69 during the nine months ended September 30, 2017, related to the sale of the PA Assets.

In June 2017, in a separate transaction, the Company entered into an agreement to sell certain equipment to a third party for amount of $60 and closed the transaction in July 2017. The Company recorded a loss related to equipment of $52 during the nine months ended September 30, 2017.

Assets sold during the nine months ended September 30, 2017 consisted of the following:

| | September 30, 2017 |
|---|---|
| Inventories | $ 413 |
| Furniture and equipment | 218 |
| | 631 |
| Loss on asset sale | (121) |
| Assets sold | $ 510 |

In February 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 100% of the issued and outstanding shares of common stock of its Texas based subsidiary, ImprimisRx TX, Inc. dba ImprimisRx ("Imprimis TX"). 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 Texas based facility. The Company recorded a loss of $173 from the sale of Imprimis TX for the nine months ended September 30, 2017, which is included in the accompanying condensed consolidated statements of operations.

**NOTE 8. INTANGIBLE ASSETS AND GOODWILL**

The Company's intangible assets at September 30, 2017 consisted of the following:

| | Amortization periods (in years) | Cost | Accumulated amortization | Impairment | Net Carrying value |
|---|---|---|---|---|---|
| Patents | 17-19 years | $ 325 | $ (16) | $ - | $ 309 |
| Licenses | 20 years | 50 | - | - | 50 |
| Trademarks | Indefinite | 246 | - | - | 246 |
| Customer relationships | 3-15 years | 2,998 | (748) | (15) | 2,235 |
| Trade name | 5 years | 16 | (9) | (1) | 7 |
| Non-competition clause | 3-4 years | 294 | (250) | (20) | 23 |
| State pharmacy licenses | 25 years | 45 | (3) | (28) | 14 |
| | | $ 3,975 | $ (1,025) | $ (64) | $ 2,884 |

Amortization expense for intangible assets for the three and nine months ended September 30 was as follows:

| | For the Three Months Ended September 30, 2017 | For the Three Months Ended September 30, 2016 | For the Nine Months Ended September 30, 2017 | For the Nine Months Ended September 30, 2016 |
|---|---|---|---|---|
| Patents | $ 3 | 4 | $ 10 | $ 5 |
| Licenses | - | - | - | - |
| Customer relationships | 65 | $ 60 | 194 | 191 |
| Trade name | - | - | 2 | 2 |
| Non-competition clause | 21 | 16 | 65 | 62 |
| State pharmacy licenses | - | - | 1 | 2 |
| | $ 89 | $ 80 | $ 272 | $ 262 |

Estimated future amortization expense for the Company's intangible assets at September 30, 2017 is as follows:

| | |
|---|---|
| Remainder of 2017 | $ 90 |
| 2018 | 227 |
| 2019 | 223 |
| 2020 | 220 |
| 2021 | 220 |
| Thereafter | 1,904 |
| | $ 2,884 |

There have been no changes in the carrying value of the Company's goodwill during the nine months ended September 30, 2017.

**NOTE 9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses consisted of the following:

| | **September 30, 2017** | **December 31, 2016** |
|---|---|---|
| Accounts payable | $ 3,385 | $ 2,999 |
| Deferred rent | 399 | 412 |
| Accrued interest (see Note 10) | 251 | 116 |
| Accrued exit fee for notes payable (see Note 10) | 800 | 667 |
| Building lease liability | - | 11 |
| Total accounts payable and accrued expenses | 4,835 | 4,205 |
| Less: Current portion | (4,035) | (3,538) |
| Non-current total accrued expenses | $ 800 | $ 667 |

**NOTE 10. DEBT**

The Company and Life Sciences Alternative Funding, LLC ("LSAF") originally entered into a loan and security agreement (the "LSAF Loan") on May 11, 2015, which was most recently amended on December 27, 2016. In July 2017, the Company entered into a term loan and security agreement in the principal amount of $16,000 (the "SWK Loan Agreement" or "SWK Loan") with SWK Funding LLC and its partners ("SWK"), as lender and collateral agent. The SWK Loan Agreement was fully funded at closing with a five-year term, however, such term may be reduced to four years if certain revenue requirements are not achieved. Concurrently with the funding, the Company utilized a portion of the SWK Loan funds as full payment to an affiliate of LSAF to terminate all amounts due to LSAF in connection with the LSAF Loan. In total, including previously made principal payments, the Company made payments of $13,999 to pay-off the LSAF Loan, which also included the previously accrued exit fee, interest paid in kind and other expenses related to the payoff. The Company also recorded a loss on early extinguishment of debt during the three and nine months ended September 30, 2017 of $884 related to the pay-off.

The SWK Loan bears interest at a variable rate equal to the three-month London Inter-Bank Offered Rate (subject to a minimum of 1.50% and maximum of 3.00%), plus an applicable margin of 10.50%. The SWK Loan Agreement permits the Company to pay interest only on the principal amount loaned thereunder for the first six payments (payments are due on a quarterly basis), which interest-only period may be reduced to four payments if the Company does not meet certain minimum revenue requirements. Following the interest-only period, the Company will be required to pay interest, plus repayments of the principal amount loaned under the SWK Loan Agreement, in quarterly payments, which shall not exceed $750 per quarter. All amounts owed under the SWK Loan Agreement, including a final fee equal to 5% of the aggregate principal amount loaned thereunder, will be due and payable on July 19, 2022, or if certain revenue requirements are not met, July 19, 2021. The Company may elect to prepay all, but not less than all, of the amounts owed under the SWK Loan Agreement prior to the maturity date at any time after July 19, 2019. If certain revenue requirements are not met, the Company may be allowed to prepay the loan from July 19, 2018 to July 19, 2019, provided that a prepayment fee equal to 6% of the principal amount of the loan will also be due. The Company is also obligated under the SWK Loan Agreement to pay for certain expenses incurred by the SWK Lender through and after the date of the SWK Loan Agreement, including certain fees and expenses relating to the preparation and administration of the SWK Loan Agreement. The Company incurred expenses and final fee of approximately $1,282 in connection with the Loan Agreement. The final fee and expenses are being amortized as interest expense over the term of the debt using the interest method and the related liability of $800 for the final fee is included in accrued expenses (see Note 9) in the accompanying condensed consolidated balance sheet.

In connection with the SWK Loan Agreement, the Company issued to SWK warrants to purchase up to 415,586 shares of the Company's common stock (the "Lender Warrants") with an exercise price of $3.08. In August 2017, the Company and SWK amended the warrants, to allow for the purchase up to 615,386 warrants with an exercise price of $2.08. The Lender Warrants are exercisable immediately, and have a term of 7 years. The Lender Warrants are subject to a cashless exercise feature, with the exercise price and number of shares issuable upon exercise subject to change in connection with stock splits, dividends, reclassifications and other conditions. The relative fair value of the Lender Warrants were approximately $1,046 and was estimated using the Black-Scholes-Merton model with the following assumptions:

| | 2017 |
|---|---|
| Weighted-average fair value of warrants granted | $ 1.70 |
| Expected terms (in years) | 7.00 |
| Expected volatility | 113.5% |
| Risk-free interest rate | 1.77% |
| Dividend yield | - |

The relative fair value of the Lender Warrants was recorded as a debt discount, decreasing notes payable and increasing additional paid-in capital on the accompanying condensed consolidated balance sheet. The debt discount is being amortized to interest expense over the term of the debt using the interest method. During the three and nine months ended September 30, 2017, debt discount amortization related to notes payable were $141 and $680, respectively, and $265 and $791 during the three and nine months ended September 30, 2016, respectively.

At September 30, 2017, future minimum payments under the Company's notes payable were as follows:

| | Amount |
|---|---|
| Remainder of 2017 | $ 741 |
| 2018 | 1,947 |
| 2019 | 3,657 |
| 2020 | 3,440 |
| 2021 | 3,214 |
| 2022 | 11,201 |
| Total minimum payments | 24,199 |
| Less: amount representing interest | (7,949) |
| Notes payable, gross (including accrued interest of $251) | 16,251 |
| Less: unamortized discount | (2,123) |
| Note payable (including accrued interest of $251), net of unamortized debt discount | $ 14,128 |

**NOTE 11. CAPITAL LEASE OBLIGATION**

At September 30, 2017, future payments under the Company's capital leases were as follows:

| | Amount |
|---|---|
| Remainder of 2017 | $ 193 |
| 2018 | 773 |
| 2019 | 751 |
| Total minimum lease payments | 1,718 |
| Less: amount representing interest payments | (128) |
| Present value of future minimum lease payment | 1,590 |
| Less: unamortized discount | (145) |
| | 1,445 |
| Less: current portion, net of unamortized discount | (562) |
| Capital lease obligation net of current portion and unamortized discount | $ 883 |

For the three and nine months ended September 30, 2017, debt discount amortization related to the capital lease obligation was $40 and $133, respectively.

**NOTE 12. 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 $2,940 after deducting the underwriter discount of 6% of the gross proceeds from the Registered Offering and other related expenses.

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.

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 the warrants with an exercise price of $1.79.

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 sold 96,946 shares of common stock and received net proceeds of $162, after deducting $5 for sales commission and offering expenses, under the Sales Agreement during the nine months ended September 30, 2017, leaving an aggregate of $9,031 available for future sales of shares thereunder as of September 30, 2017.

During the nine months ended September 30, 2017, 41,099 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 "2007 Plan"). The 2007 Plan reached its term in September 2017, and we can no longer issue additional awards under this plan, however, options still outstanding previously issued under the 2007 Plan will remain outstanding until they are exercised, reach their maturity or are otherwise cancelled/forfeited. On June 13, 2017, the Company's Board of Directors and stockholders adopted the Company's 2017 Incentive Stock and Awards Plan (the "2017 Plan" together with the 2007 Plan, the "Plans")). As of September 30, 2017, the 2017 Plan provide for the issuance of a maximum of 2,000,000 shares of the Company's common stock. The purpose of the Plans 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 Plans, 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 Plans are administered by the Compensation Committee of the Company's Board of Directors.

*Stock Options*

A summary of stock option activity under the Plans for the nine months ended September 30, 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 | 533,500 | $ 1.92 | | |
| Options exercised | - | $ - | | |
| Options cancelled/forfeit | (283,740) | $ 4.25 | | |
| Options outstanding - September 30, 2017 | 2,263,073 | $ 5.51 | 6.37 | $ - |
| Options exercisable | 911,005 | $ 5.90 | 6.46 | $ - |
| Options vested and expected to vest | 2,123,576 | $ 5.53 | 6.34 | $ - |

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 September 30, 2017, based on the closing price of the Company's common stock of $1.61 on that date.

During the nine months ended September 30, 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 nine months ended September 30, 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 | $ 2.67 |
| 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 September 30, 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 |
| $1.70 - $2.60 | 583,000 | 8.40 | $ 2.18 | 169,998 | $ 2.36 |
| $3.20 - $4.50 | 542,625 | 8.20 | $ 3.97 | 247,501 | $ 4.00 |
| $5.49 - $6.36 | 107,286 | 5.88 | $ 5.96 | 103,218 | $ 5.97 |
| $6.64 - $8.99 | 1,025,132 | 4.31 | $ 7.98 | 385,258 | $ 8.19 |
| $42.80 | 5,030 | 2.87 | $ 42.80 | 5,030 | $ 42.80 |
| $1.70 - $42.80 | 2,263,073 | 6.37 | $ 5.51 | 911,005 | $ 5.90 |

As of September 30, 2017, there was approximately $3,000 of total unrecognized compensation expense related to unvested stock options granted under the Plans. That expense is expected to be recognized over the weighted-average remaining vesting period of 2.7 years. The stock-based compensation expense for all stock options was $347 and $1,296 during the three and nine months ended September 30, 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 nine months ended September 30, 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 | 62,892 | $ 3.18 |
| RSUs vested | (41,099) | $ 3.94 |
| RSUs cancelled/forfeit | - | $ - |
| RSUs unvested at September 30, 2017 | 1,314,669 | $ 2.43 |

As of September 30, 2017, the total unrecognized compensation expense related to unvested RSUs was approximately $1,295, which is expected to be recognized over a weighted-average period of 1.1 years, based on estimated and actual vesting schedules of the applicable RSUs. The stock-based compensation for RSUs during the three and nine months ended September 30, 2017 was $302 and $909, respectively.

**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 nine months ended September 30, 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 | 615,386 | $ 2.08 |
| Exercised | (100,000) | $ 1.79 |
| Expired | - | $ - |
| Warrants outstanding and exercisable - September 30, 2017 | 6,264,215 | $ 1.91 |
| Weighted average remaining contractual life of the outstanding warrants in years - September 30, 2017 | 2.78 | |

A list of the warrants outstanding as of September 30, 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 | 210,313 | 12/27/2019 |
| PIPE Investor Warrants | 12/27/2016 | 5,157,828 | $ 1.79 | 5,157,828 | 12/27/2019 |
| Lender warrants (see Note 10) | 7/19/2017 | 615,386 | $ 2.08 | 615,386 | 7/19/2024 |
| | | 6,264,215 | $ 1.91 | 6,264,215 | |

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

| | For the Three Months Ended September 30, 2017 | For the Three Months Ended September 30, 2016 | For the Nine Months Ended September 30, 2017 | For the Nine Months Ended September 30, 2016 |
|---|---|---|---|---|
| Employees - selling and marketing | $ 117 | $ 102 | $ 393 | $ 348 |
| Employees - general and administrative | 481 | 600 | 1,657 | 2,465 |
| Directors - general and administrative | 50 | 62 | 155 | 176 |
| Consultants - selling and marketing | - | - | 60 | - |
| Other - general and administrative | - | 115 | - | 115 |
| Total | $ 648 | $ 879 | $ 2,265 | $ 3,104 |

**NOTE 13. COMMITMENTS AND CONTINGENCIES**

**Legal**

*Allergan v. Imprimis*

In September 2017, Allergan USA, Inc. (“Allergan”) filed a lawsuit in the U.S. District Court for the Central District of California against the Company, primarily claiming the Company’s violations under the federal Lanham Act and other state laws. In October 2017, the Company filed a motion to dismiss or in the alternative, stay litigation related to all of the Allergan claims. A decision regarding our motion to dismiss has not yet been determined. The Company has previously and continues to dispute all claims against it and intends to vigorously defend these allegations.

*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 and nine months ended September 30, 2017, the Company recognized $92 and $361, respectively, and $91 and $452, during the three and nine months ended September 20, 2016, 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.

**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 3% to 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 was paid $0 and $50 during the three and nine months ended September 30, 2017, respectively. 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.

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.

**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 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 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. No payments have been made in relation to this agreement as of September 30, 2017.

**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 certain dry eye disease formulations ("DED Products").

Under the terms of the SightLife Agreement, the Company is required to make commission payments to SightLife equal to 10% of each calendar year's annual net sales for DED Products. In addition, the Company is required to make periodic milestone payments to SightLife in shares of the Company's restricted common stock including: (i) 5,000 shares if net sales for DED Products reach $2,000 prior to December 31, 2017; (ii) 7,500 shares if net sales for DED Products reach $2,500; (iii) 7,500 shares if net sales for DED Products reach $5,000; (iv) 7,500 shares if net sales for DED Products reach $7,500; and (v) 7,500 shares if net sales for DED Products reach $10,000. No payments have been made in relation to this agreement as of September 30, 2017.

**NOTE 14. 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 September 30, 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 and nine months ended September 30, 2017 and 2016.

The Company receives its active pharmaceutical ingredients from three main suppliers. These suppliers collectively accounted for 72% and 70% during the three and nine months ended September 30, 2017, respectively, and 76% and 72% during the three and nine months ended September 30, 2016, respectively, of active pharmaceutical ingredient purchases.

**NOTE 15. SUBSEQUENT EVENTS**

The Company has performed an evaluation of events occurring subsequent to September 30, 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 October 2017, the Company sold 373,528 shares of common stock under the Sales Agreement and received net proceeds of $814, after deducting offering related expenses and commissions.

**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 Park Compounding, Inc., Imprimis Rx NJ, LLC dba ImprimisRx, Imprimis NJOF, LLC, and Surface Pharmaceuticals, Inc. 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 previous acquisitions 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 that produces and dispenses high quality innovative compounded medications in all 50 states. Imprimis is dedicated to patient access and affordability to many critical medicines. Headquartered in San Diego, California, Imprimis produces and dispenses its compounded ophthalmology formulations from its New Jersey facilities. Imprimis is the largest shareholder of Eton Pharmaceuticals, Inc., a company it spun out in 2017, owns Surface Pharmaceuticals, Inc. which is focused on development and commercialization of innovative therapeutics for ocular surface diseases utilizing the U.S. Food and Drug Administration's 505(b)(2) regulatory pathway and Park Compounding, a wholly owned, compounding pharmacy.

Our ophthalmology offerings address three of the largest markets in the category, cataract surgery, glaucoma and dry eye disease. Our objective is to serve with ophthalmic professionals to enable them to better address their patients' pharmaceutical needs. 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. During 2017, we launched programs with innovative medications used for glaucoma and chronic dry eye disease (DED). Our Simple Drops™ campaign includes a series of preservative-free eye drops and combination eye drops for glaucoma patients. Within our DED platform, we have a portfolio of formulations that we began to roll out in the second half of 2017, including a patent-pending nutraceutical-antibiotic oral capsule formulation and our Total Tears™ compounded eye drop offerings of which Klarity Drops™ ("Klarity") which includes customizable cyclosporine based formulations, will be the cornerstone of. We also provide other compounded medications used in several therapeutic areas as primary and adjunctive therapies for: oncology, autoimmunity, chronic infectious diseases, and endocrine and metabolic diseases.

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 fewer 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 $86,065 at September 30, 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, and Park Compounding located in Irvine, California. 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 facility, are 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 have expanded further into additional ocular surgery and other markets where there is a risk of inflammation and infection and into other markets including glaucoma and dry eye disease. We plan to expand into additional ocular markets as well including wet age-related macular degeneration (wet AMD) and diabetic macular edema (DME).

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 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). In July 2017, we announced that our Dropless formulations had surpassed 500,000 units sold.

*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 infection/inflammation eye drop market. Over 1,700 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 launched our first Klarity based formulations which include the active ingredient of cyclocsporine in October 2017, and intend to launch other Klarity based formulations later this year and in 2018. We expect the Klarity formulations will be the cornerstone of our new DED program.

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.

***Other Businesses, Assets and Development Programs***

*Eton Pharmaceuticals, Inc.*

In May 2017, we entered into two asset purchase and license agreements (the "Eton License Agreements") with our previously wholly owned subsidiary, Eton Pharmaceuticals, Inc. ("Eton"). Pursuant to the terms of the Eton License Agreements, we assigned and licensed to Eton certain intellectual property and related rights to develop, formulate, make, sell, and sub-license our proprietary formulations of synthetic corticotropin and injectable pentoxifylline (collectively, the "Eton Products"). Eton intends to seek FDA approval for the commercialization of its drug candidates through the Section 505(b)(2) regulatory pathway under the Federal Food, Drug, and Cosmetic Act of 1938 (the "FDCA"), as amended, and in corresponding regulatory paths in other foreign jurisdictions. If approved, Eton is required to make royalty payments to us in the amount of three percent (3%) to six percent (6%) of net sales of the Eton Products. In addition, Eton is required to make certain milestone payments to us including payments of $50 upon initial patent issuances for each Eton Product. Eton also has acquired two additional sterile injectable drug candidates that qualify under the Drug Efficacy Study Implementation (DESI) program which it plans to develop and commercialize through the 505(b)(2) pathway.

The Eton License Agreements became effective in June 2017, when Eton closed an offering of its Series A Preferred Stock for gross proceeds of approximately $20,000 (the "Series A Round"). At the time of closing we lost our controlling interest, and deconsolidated Eton from our consolidated financial statements. We own three million five hundred thousand (3,500,000) shares of Eton common stock, which is approximately 27% of the equity and voting interests of Eton following the close of the Series A Round.

Mark L. Baum, our CEO is a member of the Eton board of directors, and Andrew R. Boll, our CFO, was a member of the Eton board of directors until his resignation from the Eton board in July 2017. Mr. Boll and Mr. Baum, along with other Imprimis employees have entered into consulting agreements with Eton.

*Surface Pharmaceuticals, Inc.*

We own patented and patent-pending topical and oral formulations that have been used to treat symptoms associated with DED and meibomian gland dysfunction (MGD), and we believe these formulations may be candidates to be developed under the 505(b)(2) new drug application FDA approval pathway. Similar to the transactions completed with Eton, we are currently pursuing an opportunity to separately finance and develop these formulations through a subsidiary, called Surface Pharmaceuticals, Inc. ("Surface"). We have established Surface, are transferring the assets to it, empaneled a board of directors and have agreed to terms with a senior leader to become the chief executive officer to lead the company.

Surface is focused on development and commercialization of innovative therapeutics for ocular surface diseases utilizing the U.S. Food and Drug Administration's 505(b)(2) regulatory pathway. Its current drug pipeline consists of three proprietary product candidates. Its patent-pending preservative-free topical eye drop product candidates, SURF-100 and SURF-200, utilize a patented delivery vehicle known as Klarity Drops$^{TM}$ that was invented by Surface's chairman of the board (and director of Imprimis) and renowned ophthalmologist Richard L. Lindstrom, MD. SURF-300 is a patent-pending oral capsule that targets patients also suffering from DED signs and symptoms.

The arrangements to establish Surface will be contingent a successful initial round of equity financing. If we are successful in financing Surface, Imprimis would retain an equity position in Surface and a royalty on commercial sales of certain Surface products.

*Park Compounding*

In November 2017, we changed the name of our Irvine, California based compounding pharmacy to Park Compounding, Inc. ("Park"). Park is primarily focused in the integrative medicine business which 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), lyophilized artesunate and other medications used for various integrative therapies.

*Other Markets*

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.

We 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.

We also own assets that we may continue to develop into a platform to serve institutional purchasers of FDA approved drugs.

*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 July 2017, we entered into a supply agreement with a large, nationwide provider of LASIK and PRK surgeries for our LessDrops formulations. This group has over 50 surgery centers nationwide. We have already made our first shipments to this customer and have had to increase our production capabilities to allow for the expected increase in orders that may be forthcoming.

***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 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 Park Compounding 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. Although we started restoration of the facility, in September 2016, after consideration of the totality of circumstances of 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.

In June 2017, we announced the sale of our Folcroft, Pennsylvania pharmacy and sinus related assets for $450, the transaction closed on July 17, 2017.

**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. All of our formulations may be customizable depending on the needs of the individual patient. Additionally, in November 2016, we registered part of our New Jersey facility as an outsourcing facility. Formulations dispensed from NJOF don't require a patient specific prescription.

***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”). 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.

***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 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 certain dry eye disease formulations ("DED Products").

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 DED Products. In addition, we are required to make periodic milestone payments to SightLife in shares of the our restricted common stock including: (i) 5,000 shares if net sales for DED Products reach $2,000 prior to December 31, 2017; (ii) 7,500 shares if net sales for DED Products reach $2,500; (iii) 7,500 shares if net sales for DED Products reach $5,000; (iv) 7,500 shares if net sales for DED Products reach $7,500; and (v) 7,500 shares if net sales for DED Products reach $10,000.

***Eton License Agreements***

As described more fully above under the sub-heading "*Eton Pharmaceuticals, Inc.*", in May 2017, we entered the Eton License Agreements with our previously wholly owned subsidiary, Eton. The Eton License Agreements were made effective in June 2017. Pursuant to the terms of the Eton License Agreements, we assigned and licensed to Eton certain intellectual property and related rights to develop, formulate, make, sell, and sub-license the Eton Products.

***Sinus Assets Sale***

In July 2017, we completed the disposition of substantially all its assets associated with our sinus related business, including but not limited to, certain intellectual property rights, trademarks, copyrights, inventories, equipment, customer lists, databases, permits, licenses, and assignment of our lease obligation for our Pennsylvania based pharmacy (the "PA Assets") pursuant to an Asset Purchase Agreement (the "PA Purchase Agreement), dated June 27, 2017, by and among us and our wholly owned subsidiaries ImprimisRx PA, Inc. and ImprimisRx CA, Inc.(now known as Park Compounding, Inc.) (collectively the "Sellers") and Creative Pharmacy Solutions Central, LLC (the "Buyer"), for a total sales price of approximately $450. In connection with the closing of the PA Purchase Agreement (the "PA Closing"), the Buyer paid to us an aggregate initial cash payment of $40. In addition, the Buyer is obligated to pay the remaining $410 in the form of a note that will bear interest at 6% per annum (the "Sellers Note"). The Buyer will make forty-eight (48) monthly cash payments to the Company of $10 each over the four years following the PA Closing, totaling $462; provided however, that the Buyer will have the option to make a one-time payment of $365 any time prior to December 31, 2017, and we will waive any remaining amounts due of the Seller Note. The principal amount of the Sellers Note may also be reduced by $125, if after a period of 60 days following the closing, certain revenues associated with the PA Assets are less than 60% of the revenues associated with the PA Assets 60 days prior to the close of the transaction.

***Loan Agreement***

In July 2017, we entered into a term loan and security agreement in the principal amount of $16,000 (the "SWK Loan Agreement" or "SWK Loan") with SWK Funding LLC and its partners (the "SWK Lender"), as lender and collateral agent. The SWK Loan Agreement was fully funded at closing with a five year term, however, such term may be reduced to four years if certain revenue requirements are not achieved. Concurrently with the funding, we utilized a portion of the SWK Loan funds as full payment to an affiliate of Life Sciences Alternative Funding, LLC ("LSAF") to terminate all amounts due to LSAF in connection with the existing term loan and security agreements, as amended, originally entered into between us and LSAF on May 11, 2015 (the "LSAF Loan"), which loan had a principal balance of $12,120 at the time of final payment.

The SWK Loan bears interest at a variable rate equal to the three-month London Inter-Bank Offered Rate (subject to a minimum of 1.50% and maximum of 3.00%), plus an applicable margin of 10.50%. The SWK Loan Agreement permits us to pay interest only on the principal amount loaned thereunder for the first six payments (payments are due on a quarterly basis), which interest-only period may be reduced to four payments if we do not meet certain minimum revenue requirements. Following the interest-only period, we will be required to pay interest, plus repayments of the principal amount loaned under the SWK Loan Agreement, in quarterly payments, which shall not exceed $750 per quarter. All amounts owed under the SWK Loan Agreement, including a final fee equal to 5% of the aggregate principal amount loaned thereunder, will be due and payable on July 19, 2022, or if certain revenue requirements are not met, July 19, 2021. We may elect to prepay all, but not less than all, of the amounts owed under the SWK Loan Agreement prior to the maturity date at any time after July 19, 2019. If certain revenue requirements are not met, we may be allowed to prepay the loan from July 19, 2018 to July 19, 2019, provided that a prepayment fee equal to 6% of the principal amount of the loan will also be due.

Our obligations under the Loan Agreement are guaranteed on a secured basis by our wholly owned subsidiaries, ImprimisRx NJ, LLC, Imprimis NJOF, LLC and Park Compounding, Inc. Each of the Company and its subsidiaries has granted the SWK Lender a security interest in substantially all of its personal property, rights and assets, including intellectual property rights and equity ownership, to secure the payment of all amounts owed under the SWK Loan Agreement.

In connection with the SWK Loan Agreement, we issued to the SWK Lender warrants to purchase up to 615,386 shares of the Company's common stock (the "Lender Warrants"). The Lender Warrants are exercisable immediately, have an exercise price of $2.08 per share and maintain a term of 7 years. The Lender Warrants are subject to a cashless exercise feature, with the exercise price and number of shares issuable upon exercise subject to change in connection with stock splits, dividends, reclassifications and other conditions.

**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 and nine months ended September 30, 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 and nine months ended September 30, 2017 and 2016:

| | For the Three Months Ended September 30, | | $ | For the Nine Months Ended September 30, | | $ |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Variance | 2017 | 2016 | Variance |
| **Sales, net** | $ 6,473 | $ 4,858 | $ 1,615 | $ 19,411 | $ 14,141 | $ 5,270 |
| **License revenues** | 10 | 3 | 7 | 26 | 8 | 18 |
| **Total revenues** | $ 6,483 | $ 4,861 | $ 1,622 | $ 19,437 | $ 14,149 | $ 5,288 |

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 $4,897 and $13,315 for the three and nine months ended September 30, 2017, compared to $3,032 and $7,437 during the same period last year. Net revenues generated from NJOF (which include certain ophthalmology related sales) totaled $2,610 and $5,494 during the three and nine months ended September 30, 2017.

*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 and nine months ended September 30, 2017 and 2016:

| | For the Three Months Ended September 30, | | $ | For the Nine Months Ended September 30, | | $ |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Variance | 2017 | 2016 | Variance |
| **Cost of sales** | $ 3,403 | $ 2,339 | $ 1,064 | $ 10,048 | $ 6,760 | $ 3,288 |

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 and nine months ended September 30, 2017 as we shifted certain production efforts and requirements to new processes and systems, including cGMP requirements at NJOF which effected our overall gross margin percent. We estimate gross margins at NJOF were greater than 60% during the three months ended September 30, 2017.

*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 and nine months ended September 30, 2017 and 2016:

| | For the Three Months ended September 30, | | $ | For the Nine Months Ended September 30, | | $ |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Variance | 2017 | 2016 | Variance |
| **Selling and marketing** | $ 1,288 | $ 1,797 | $ (509) | $ 5,727 | $ 5,967 | $ (240) |

The decrease in selling and marketing expenses during the three and nine months ended September 30, 2017 compared to the same period last year, was primarily attributable to a more concentrated and focused sales effort during 2017. We have decreased our salaried sales force headcount, began utilizing contracted sales forces, and implemented efficiencies with regards to our offerings and presence at trade conferences and 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 and nine months ended September 30, 2017 and 2016:

| | For the Three Months Ended September 30, | | $ | For the Nine Months Ended September 30, | | $ |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Variance | 2017 | 2016 | Variance |
| **General and administrative** | $ 4,493 | $ 5,018 | $ (525) | $ 13,350 | $ 13,355 | $ (5) |

The decrease in general and administrative expenses between periods was largely attributable to the cost reduction strategies we began to implement during the third quarter of 2016 and throughout 2017. Those reduction strategies included reductions in force, implementation of information technology related efficiencies and streamlined certain operational 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 and nine months ended September 30, 2017 and 2016:

| | For the Three months ended September 30, | | $ | For the Nine Months Ended September 30, | | $ |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Variance | 2017 | 2016 | Variance |
| **Research and development** | $ 63 | $ 16 | $ 47 | $ 324 | $ 138 | $ 186 |

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 nine months ended September 30, 2017.

*Interest Income*

Interest income was $2 and $7 for the three and nine months ended September 30, 2017, respectively, compared to $1 and $9 for the same periods in the prior year.

*Interest Expense*

Interest expense was $795 and $2,355 for the three and nine months ended September 30, 2017, compared to $733 and $2,001 during the same period last year, respectively. 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.

*Loss on Early Extinguishment of Debt*

During the three and nine months ended September 30, 2017, we recorded a loss of $884, related to the early extinguishment of the LSAF Loan.

*Equity Loss from Eton*

During the three and nine months ended September 30, 2017, we recorded a loss of $1,237 and $1,453, respectively, for our share of losses based on our ownership of Eton. We began using equity method accounting for our investment in Eton beginning on June 16, 2017, the date we no longer had a controlling interest, prior to that date, their losses were consolidated within our statement of operations.

*Gain on Deconsolidation of Eton*

During the nine months ended September 30, 2017, we recorded a gain of $5,725, on the deconsolidation of Eton, see Note 2 and Note 3 in the Notes to the condensed consolidated financial statements for a more detailed explanation of this transaction.

*Loss on Sale of Assets*

During the three and nine months ended September 30, 2017, we recorded a loss of $42 and $326, respectively, mostly related to assets associated with the sale of Imprimis TX and our sinus business.

*Income Tax Benefit*

Income tax benefit was $28 and $84 for the three and nine months ended September 30, 2017, respectively, 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*

The following table presents our net loss for the three and nine months ended September 30, 2017 and 2016:

| | For the Three Months Ended September 30, 2017 | For the Three Months Ended September 30, 2016 | For the Nine Months Ended September 30, 2017 | For the Nine Months Ended September 30, 2016 |
|---|---|---|---|---|
| Numerator – net loss | $ (5,692) | $ (3,850) | $ (9,214) | $ (12,985) |
| **Net loss per share, basic and diluted** | $ (0.28) | $ (0.29) | $ (0.47) | $ (1.05) |

**Liquidity and Capital Resources**

***Liquidity***

Our cash on hand (including restricted cash) at September 30, 2017 was $4,067, compared to $9,053 at December 31, 2016. Since inception through September 30, 2017 we have incurred aggregate losses to common stockholders of $(86,065). 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 of $3,867 and restricted investments of $200 totaling approximately $4,067 at September 30, 2017, along with net proceeds from the sale of our common stock through the Controlled Equity Offering$^{SM}$ sales agreement with Cantor Fitzgerald & Co. (the "Sales Agreement"), 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.

*Net Cash Flow*

The following provides detailed information about our net cash flows for the three and nine months ended September 30, 2017 and 2016:

| | For the Nine Months Ended September 30, 2017 | For the Nine Months Ended September 30, 2016 |
|---|---|---|
| Net cash used in operating activities | $ (8,509) | $ (8,977) |
| Net cash used in investing activities | (712) | (7,125) |
| Net cash provided by (used in) financing activities | 4,235 | 15,779 |
| Net change in cash and cash equivalents | (4,986) | (323) |
| Cash and cash equivalents at beginning of the period | 8,853 | 2,685 |
| Cash and cash equivalents at end of the year | $ 3,867 | $ 2,362 |

*Operating Activities*

Net cash used in operating activities was $(8,509) in 2017, as compared to $(8,977) 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 $(712) and $(7,125), respectively. Cash used in investing activities in 2017, were primarily associated with equipment purchases and upgrades and investments in our intellectual property portfolio. 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 $4,235 and $15,779, 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 and net proceeds from the SWK Loan (less the concurrent retirement of our then existing term loan). 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 $2,940 in net proceeds related to a registered direct offering of our common stock in March 2017, proceeds related to $16,000 SWK Loan in July 2017 (less the concurrent retirement of our then existing term loan), the proceeds related the sale of our common stock through the Sales Agreement and from ongoing product and formulation sales. We may also sell some or all of our owenership interestes in Eton or our other subsidiaries. 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 additional proceeds from future sales of our common stock under the Sales Agreement. 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 SWK Loan. 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 September 30, 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 September 30, 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 September 30, 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

*Allergan v. Imprimis*

In September 2017, Allergan USA, Inc. ("Allergan") filed a lawsuit in the U.S. District Court for the Central District of California against us, primarily claiming violations under the federal Lanham Act and other state laws. In October 2017, we filed a motion to dismiss or in the alternative, stay litigation related to all of the Allergan claims. A decision has not yet been determined regarding our motion to dismiss. We have previously and continue to dispute all claims against us and intend to vigorously defend these allegations.

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 $(5,692) and $(9,214) for the three and nine months ended September 30, 2017 and $(3,850) and $(12,985) for the three and nine months ended September 30, 2016, respectively. As of September 30, 2017, our accumulated deficit was $(86,065). 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 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 and use external sales companies 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 currently operate from compounding facilities in New Jersey and California. 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 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.

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 July 19, 2017, we incurred $16,000 of indebtedness under a loan agreement with SWK Funding, LLC and its partners (SWK) and concurrent with the funding, we utilized a portion of the SWK Loan funds as full payment to an affiliate of Life Sciences Alternative Funding, LLC (LSAF) to terminate all amounts due to LSAF in connection with the existing term loan and security agreements, as amended, originally entered into between the Company and LSAF on May 11, 2015 (the "LSAF Loan"), which loan had a principal balance of $12,120 at the time of final payment.

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 SWK debt instrument contain various restrictive covenants, including, among others, our obligation to deliver to SWK certain financial and other information, our obligation to comply with certain notice and insurance requirements, and our inability, without SWK'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, SWK 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 $55,000 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 with SWK. 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 and/or license 33 U.S. patents or patent applications and we own eight international patent applications filed under the Patent Cooperation Treaty and 30 foreign patent or 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 November 13, 2017, approximately 13% 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 SWK 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**

None.

**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 |
|---|---|
| **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: November 14, 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: November 14, 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: November 14, 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 September 30, 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: November 14, 2017

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

Date: November 14, 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.