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

**FORM 10-Q**

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

For the quarterly period ended **March 31, 2014**

**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**

(State or other jurisdiction of  
incorporation or organization)

**45-0567010**

(I.R.S. Employer  
Identification No.)

**12626 High Bluff Dr., Suite 150  
San Diego, CA**

(Address of principal executive offices)

**92130**

(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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

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

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS**

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Exchange Act of 1934 after the distribution of securities under a plan confirmed by a court. Yes  No

As of May 14, 2014, 9,104,231 shares of the registrant's common stock, \$0.001 par value, were outstanding.

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**IMPRIMIS PHARMACEUTICALS, INC.**  
**(A Development Stage Company)**

Table of Contents

	<b>Page</b>
<b>Part I</b>	
<a href="#">FINANCIAL INFORMATION</a>	
Item 1. <a href="#">Financial Statements (unaudited)</a>	F-1
Item 2. <a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	3
Item 3. <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	9
Item 4. <a href="#">Controls and Procedures</a>	9
<b>Part II</b>	
<a href="#">OTHER INFORMATION</a>	
Item 1. <a href="#">Legal Proceedings</a>	10
Item 1A. <a href="#">Risk Factors</a>	10
Item 2. <a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	24
Item 3. <a href="#">Defaults Upon Senior Securities</a>	25
Item 4. <a href="#">Mine Safety Disclosures</a>	25
Item 5. <a href="#">Other Information</a>	25
Item 6. <a href="#">Exhibits</a>	25
<a href="#">Signatures</a>	41

**PART I**  
**FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**IMPRIMIS PHARMACEUTICALS, INC.**  
**(A Development Stage Company)**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	<u>March 31, 2014</u> (Unaudited)	<u>December 31, 2013</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 14,201,144	\$ 15,579,309
Restricted short-term investment	50,127	50,097
Accounts receivable	1,410	-
Due from Pharmacy Creations, LLC	41,356	-
Prepaid expenses and other current assets	123,664	105,067
Total current assets	<u>14,417,701</u>	<u>15,734,473</u>
Furniture and equipment, net	34,230	26,892
<b>TOTAL ASSETS</b>	<u><u>\$ 14,451,931</u></u>	<u><u>\$ 15,761,365</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 457,105	\$ 311,924
Accrued payroll and related liabilities	198,362	338,703
Total current liabilities	<u>655,467</u>	<u>650,627</u>
Commitments and contingencies		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$0.001 par value, 395,000,000 shares authorized, 9,085,715 and 8,970,364 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	9,086	8,970
Additional paid-in capital	47,859,933	46,849,160
Deficit accumulated during the development stage	<u>(34,072,555)</u>	<u>(31,747,392)</u>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>13,796,464</u>	<u>15,110,738</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u><u>\$ 14,451,931</u></u>	<u><u>\$ 15,761,365</u></u>

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

**IMPRIMIS PHARMACEUTICALS, INC.**  
**(A Development Stage Company)**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	For the Three Months Ended March 31, 2014	For the Three Months Ended March 31, 2013	For the Period From July 24, 1998 (Inception) through March 31, 2014
<b>Revenues:</b>			
License revenues	\$ 1,410	\$ 2,500	\$ 111,410
<b>Operating Expenses:</b>			
Selling, general and administrative	2,276,730	1,019,949	20,911,228
Research and development	60,152	455,100	10,794,995
Total operating expenses	2,336,882	1,475,049	31,706,223
Loss from operations	(2,335,472)	(1,472,549)	(31,594,813)
<b>Other income (expense):</b>			
Interest expense	-	-	(1,730,892)
Interest income	10,309	7,068	197,055
Loss on extinguishment of debt	-	-	(1,195,410)
Gain on settlement	-	-	375,000
Gain on forgiveness of liabilities	-	-	176,505
Total other income (expense), net	10,309	7,068	(2,177,742)
Net loss	(2,325,163)	(1,465,481)	(33,772,555)
Deemed dividend to preferred stockholders	-	-	(300,000)
Net loss attributable to common stockholders	\$ (2,325,163)	\$ (1,465,481)	\$ (34,072,555)
Net loss attributable to common stockholders per share of common stock, basic and diluted:	\$ (0.26)	\$ (0.19)	
Weighted average number of shares of common stock outstanding, basic and diluted	9,010,602	7,788,236	

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

**IMPRIMIS PHARMACEUTICALS, INC.**  
**(A Development Stage Company)**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the Three Months Ended March 31, 2014	For the Three Months Ended March 31, 2013	For the Period From July 24, 1998 (Inception) through March 31, 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss	\$ (2,325,163)	\$ (1,465,481)	\$ (33,772,555)
Adjustments to reconcile net loss to net cash used in operating activities:			
Estimated fair value of contributed services	-	-	2,475,000
Gain on forgiveness of liabilities	-	-	(176,505)
Amortization of prepaid consulting fees	26,649	-	1,127,395
Depreciation	2,556	899	14,313
Loss on extinguishment of debt	-	-	1,195,410
Non-cash interest on notes payable	-	-	1,730,892
Stock-based compensation	661,288	410,715	7,788,551
Payments made on behalf of Company by related party	-	-	254,142
Changes in assets and liabilities:			
Accounts receivable	(1,410)	-	(1,410)
Prepaid expenses and other current assets	(45,276)	(142,898)	(263,792)
Accounts payable and accrued expenses	145,181	65,411	557,213
Accrued payroll and related liabilities	(140,341)	72,746	284,953
Deferred revenue	-	833	-
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(1,676,516)</b>	<b>(1,057,775)</b>	<b>(18,786,393)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of restricted short-term investment	-	(50,000)	(50,000)
Cash advances to Pharmacy Creations, LLC	(41,356)	-	(41,356)
Purchases of furniture and equipment	(9,894)	(1,449)	(48,543)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(51,250)</b>	<b>(51,449)</b>	<b>(139,899)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cancelled common stock	-	(192)	(192)
Proceeds from issuance of notes payable to a related party	-	-	976,300
Proceeds received in connection with debt modification	-	-	50,000
Proceeds from issuance of preferred stock	-	-	100,000
Proceeds from notes payable	-	-	2,500,000
Preferred stock deemed dividend paid at conversion	-	-	(200,000)
Cash advances to and from related parties	-	-	27,537
Cash advances to related parties	-	-	(281,679)
Capital contributions	-	-	168,707
Net proceeds from purchase of common stock and exercise of warrants and stock options	349,601	-	449,851
Proceeds from issuance of common stock and warrants for cash, net of offering costs	-	10,052,832	29,336,911
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>349,601</b>	<b>10,052,640</b>	<b>33,127,436</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,378,165)</b>	<b>8,943,416</b>	<b>14,201,144</b>
CASH AND CASH EQUIVALENTS, beginning of period	15,579,309	10,035,615	-
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 14,201,144</b>	<b>\$ 18,979,031</b>	<b>\$ 14,201,144</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Cash paid for income taxes	\$ 800	\$ 1,600	\$ 14,400
<b>SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>			
Issuance of and adjustment to common stock and warrants to consulting firms for prepaid consulting fees	\$ -	\$ -	\$ 751,793
Conversion of related party accounts payable into common stock	\$ -	\$ -	\$ 56,087
Conversion of notes payable and accrued interest into common stock	\$ -	\$ -	\$ 3,435,314
Forgiveness of notes payable and accrued interest to shareholders	\$ -	\$ -	\$ 241,701
Conversion of advances to notes payable to shareholders	\$ -	\$ -	\$ 196,300
Accretion of preferred stock discount	\$ -	\$ -	\$ 100,000
Related party acquisition of Phase 3 liabilities	\$ -	\$ -	\$ 56,087
Conversion of preferred stock into common stock	\$ -	\$ -	\$ 1,500
Reclassification of deferred offering costs in connection with equity offering	\$ -	\$ 596,281	\$ 596,281
Issuance of common stock for consulting services included in accounts payable and accrued expenses	\$ -	\$ -	\$ 139,444



**IMPRIMIS PHARMACEUTICALS, INC.**

**(A Development Stage Company)**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**For the three months ended March 31, 2014 and 2013 and the period from July 24, 1998 (Inception) through March 31, 2014**

**NOTE 1. OVERVIEW, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Company and Background**

Imprimis Pharmaceuticals, Inc. (“Imprimis” or the “Company”) is a vertically-integrated specialty pharmaceutical company dedicated to delivering high quality, novel and customizable medicines to physicians and patients at accessible prices. Imprimis is pioneering a new commercial pathway using compounding pharmacies for the formulation and distribution of its proprietary drug therapies which include formulations in ophthalmology, wound management and urology.

**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 complete financial statements. In the opinion of management, all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. 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, 2013.

**Principles of Consolidation**

On September 17, 2007, Imprimis entered into an Agreement of Merger and Plan of Reorganization (the “Merger Agreement”) by and among Imprimis, Transdel Pharmaceuticals Holdings, Inc., a privately held Nevada corporation (“Transdel Holdings”), and Trans-Pharma Acquisition Corp., a newly formed, wholly-owned Delaware subsidiary of Imprimis (“Acquisition Sub”). Upon closing of the merger transaction contemplated under the Merger Agreement (the “Merger”), Acquisition Sub merged with and into Transdel Holdings, and Transdel Holdings, as the surviving corporation, became a wholly-owned subsidiary of Imprimis. As a result of the Merger, the former owners of Transdel Holdings became the controlling stockholders of Imprimis. Accordingly, the merger of Transdel Holdings and Imprimis is a reverse merger that has been accounted for as a recapitalization of Transdel Holdings.

Effective on September 17, 2007, and for all reporting periods thereafter, Imprimis’ operating activities, including any prior comparative period, include only those of Transdel Holdings. All references to share and per share amounts in the accompanying condensed consolidated financial statements and footnotes have been restated to reflect the aforementioned share exchange. All significant intercompany accounts and transactions have been eliminated in consolidation.

On June 20, 2011, Transdel Holdings was merged with Imprimis Pharmaceuticals, Inc., at which time Transdel Holdings ceased as a corporation, and Imprimis Pharmaceuticals, Inc. remains as the sole surviving corporation.

**Development Stage Enterprise**

The Company is a development stage company as defined under Financial Accounting Standards Board (“FASB”) guidance. All losses accumulated since inception have been considered as part of the Company’s development stage activities.

These condensed consolidated financial statements contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. The Company is a development stage enterprise and has incurred recurring operating losses, has had negative operating cash flows and has not recognized any significant revenues since July 24, 1998 (Inception). In addition, the Company has a deficit accumulated during the development stage of approximately \$34.1 million at March 31, 2014, and anticipates incurring further losses through the remainder of the fiscal year 2014 and beyond. The Company has not yet generated significant sales revenue and has funded its operating losses to date through debt and equity offerings and borrowings under its line of credit. The Company believes that its existing cash and cash equivalents will be sufficient to cover its cash flow requirements for at least the next twelve months. The Company's pharmacy operations commenced on April 1, 2014. This change in the nature of the Company's operations is expected to have a significant impact on our financial results in the future, including the recognition of significant revenues; as a result the Company will no longer be defined as a development stage company for reporting dates post April 1, 2014.

## **Research and Development**

The Company expenses all costs related to research and development as they are incurred. Research and development expenses consist of expenses incurred in performing research and development activities including salaries and benefits, and other overhead expenses, and costs related to clinical trials, contract services and outsourced contracts.

## **Intellectual Property**

The costs of acquiring intellectual property rights to be used in the research and development process, including licensing fees and milestone payments, are charged to research and development expense as incurred in situations where the Company has not identified an alternative future use for the acquired rights, and are capitalized in situations where the Company has identified an alternative future use. No costs associated with acquiring intellectual property rights have been capitalized to date. Costs of maintaining intellectual property rights are expensed as incurred.

## **Revenue Recognition and Deferred Revenue**

The Company will recognize 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 believes it will begin to generate significant revenues beginning in the second quarter of 2014, which will include sales of our compounded drug formulations.

### *Product Revenues*

Determination of criteria (3) and (4) will be based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments will be provided for in the same period the related sales are recorded. The Company will defer any revenue for which the product has not been delivered or for which services have not been rendered or are subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or services have been rendered or no refund will be required.

### *License Revenues*

License arrangements may consist of non-refundable upfront license fees, data transfer fees, research reimbursement payments, exclusive licensed 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 us, and require no consequential continuing involvement on our part, are recognized as revenue when the license term commences and the licensed data, technology and/or compounded drug preparations 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 patents pending for such compounded drug preparations. We defer recognition of non-refundable fees if we have 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 that is separate and independent of our performance under the other elements of the arrangement. In addition, if we have required continuing involvement through research and development services that are related to our proprietary know-how and expertise of the delivered technology, or can only be performed by us, then such up-front 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.



During the three months ended March 31, 2014 and 2013, the Company recorded \$1,410 and \$2,500, respectively, in revenues, related to royalty payments. In January 2013, the Company entered into a license agreement with ResolutionMD, LLC granting ResolutionMD, LLC rights to its Accudel delivery technology to be used for anti-cellulite formulations. Under the license agreement, the Company received \$10,000 as a guaranteed minimum royalty amount for the year ended December 31, 2013. The Company is due annual guaranteed minimum royalty payments and additional royalty payments based on a percent (generally, 5%-7%) of net sales of any products covered under the license agreement in excess of the guaranteed amounts. The license agreement with ResolutionMD, LLC, unless terminated earlier, has a term of ten years following the first commercial sale of a product that is covered under the license agreement. The Company does not anticipate that the license agreement with ResolutionMD, LLC will generate significant revenues for the 2014 fiscal year.

### **Income Taxes**

The Company accounts for income taxes under the provisions of Accounting Standards Codification (“ASC”) 740, “Income Taxes”, or ASC 740. As of March 31, 2014, there were no unrecognized tax benefits included in the condensed consolidated balance sheets that would, if recognized, affect the effective tax rate. The Company’s practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had no accrual for interest or penalties in its condensed consolidated balance sheets at March 31, 2014 and December 31, 2013, and has not recognized interest and/or penalties in the condensed consolidated statements of operations for the periods ended March 31, 2014 and 2013. The Company is subject to taxation in the United States and California. The Company’s tax years for 2000 and forward are subject to examination by the federal and state tax authorities due to the carry forward of unutilized net operating losses.

### **Cash and Cash Equivalents**

Cash equivalents include short-term, highly liquid investments with maturities of three months or less at the time of acquisition.

### **Concentrations of Credit Risk**

The Company places its cash with financial institutions deemed by management to be of high credit quality. The Federal Deposit Insurance Corporation (“FDIC”) provides basic deposit coverage with limits to \$250,000 per owner. At March 31, 2014, the Company had approximately \$14.0 million in cash deposits in excess of FDIC limits.

### **Furniture and Equipment**

Furniture and equipment is stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of three to five years.

### **Deferred Rent**

The Company accounts for rent expense related to its operating leases by determining total minimum rent payments on the leases over their respective periods and recognizing the rent expense on a straight-line basis. The difference between the actual amount paid and the amount recorded as rent expense in each fiscal year is recorded as an adjustment to deferred rent.

### **Fair Value Measurements**

Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability. GAAP establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The established fair value hierarchy prioritizes the use of inputs used in valuation methodologies into the following three levels:

- Level 1: Applies to assets or liabilities for which there are quoted prices (unadjusted) for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and must be used to measure fair value whenever available.

- Level 2: Applies to assets or liabilities for which there are significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Applies to assets or liabilities for which there are significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability. For example, level 3 inputs would relate to forecasts of future earnings and cash flows used in a discounted future cash flows method.

At March 31, 2014 and December 31, 2013, the Company did not have any financial assets or liabilities which are measured on a recurring basis. At March 31, 2014 and December 31, 2013, the Company's financial instruments include cash and cash equivalents, a restricted short-term investment, accounts receivable, accounts payable and accrued expenses, and accrued payroll and related liabilities. The carrying amount of these financial instruments, except for the restricted short-term investment, approximates fair value due to the short-term maturities of these instruments. The Company's restricted short-term investment is carried at amortized cost which approximates fair value.

### Stock-Based Compensation

All stock-based payments to employees and consultants, including grants of stock options, warrants, restricted stock units ("RSUs") and restricted stock, are recognized in the consolidated financial statements based upon their fair values. The Company uses the Black-Scholes-Merton option pricing model and Monte Carlo Simulation to estimate the fair value of stock-based awards. The fair value is determined at the date of 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.

The Company's accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows FASB guidance. As such, the value of the applicable stock-based compensation is periodically remeasured and income or expense is recognized during their vesting terms. The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor's performance is complete. In the case of equity instruments issued to consultants, the fair value of the equity instrument is primarily recognized over the term of the consulting agreement. In accordance with FASB guidance, an asset acquired in exchange for the issuance of fully vested, nonforfeitable equity instruments should not be presented or classified as an offset to equity on the grantor's balance sheet once the equity instrument is granted for accounting purposes. Accordingly, the Company records the fair value of nonforfeitable equity instruments issued for future consulting services as prepaid stock-based consulting expenses in its consolidated balance sheets.

The Company recorded stock-based compensation (including the amortization of stock-based prepaid consulting fees) related to equity instruments granted to employees, directors and consultants as follows:

	For the Three Months Ended March 31, 2014	For the Three Months Ended March 31, 2013
Employees - selling, general and administrative	\$ 557,134	\$ 86,003
Employees - research and development	-	67,131
Directors - selling, general and administrative	42,146	202,792
Consultants - selling, general and administrative	84,555	117,389
Consultants - research and development	4,102	(62,600)
Total	<u>\$ 687,937</u>	<u>\$ 410,715</u>

### Basic and Diluted Net Loss per Common Share

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

Basic and diluted net loss applicable to common stock 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 convertible notes, preferred stock, stock options, unvested restricted stock units (“RSUs”) and warrants were 3,380,095 and 1,854,354 at March 31, 2014 and 2013, respectively, and are excluded from the calculation of diluted net loss per share for all periods presented because the effect is anti-dilutive.

The following table shows the computation of basic and diluted loss per share of common stock for the three months ended March 31, 2014 and 2013:

	For the Three Months Ended March 31, 2014	For the Three Months Ended March 31, 2013
Numerator – net loss attributable to common stockholders	\$ (2,325,163)	\$ (1,465,481)
Denominator – weighted average number of shares outstanding, basic and diluted	9,010,602	7,788,236
<b>Net loss per share, basic and diluted</b>	<b>\$ (0.26)</b>	<b>\$ (0.19)</b>

#### Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and judgments that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Significant estimates made by management are, among others, valuation of deferred taxes, realization of long-lived assets and valuation of stock-based compensation issued to employees and non-employees. Actual results could differ from those estimates.

#### Reclassifications

Certain prior period items and amounts have been reclassified to conform to the classifications used to prepare the 2014 condensed consolidated financial statements. These reclassifications had no material impact on the Company’s financial position, results of operations, or cash flows as previously reported.

#### Recently Adopted Accounting Pronouncements

In July 2013, the FASB issued Accounting Standards Update (“ASU”) No. 2013-11, “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.” ASU 2013-11 provides explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The guidance is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013, with an option for early adoption. This pronouncement is effective for reporting periods beginning on or after January 1, 2013. The adoption of ASU 2011-11 did not have a material impact on the Company’s condensed consolidated financial statements.

*Proposed Amendments to Current Accounting Standards.* The FASB is currently developing amendments to existing accounting standards governing a number of areas including, but not limited to, revenue recognition and lease accounting.

In June 2010, the FASB issued an exposure draft, *Revenue from Contracts with Customers*, which would supersede most of the existing guidance on revenue recognition in Accounting Standards Codification (“ASC”) Topic 605, *Revenue Recognition*. In November 2011, the FASB re-exposed this draft and it expects a final standard to be issued in the year ending December 31, 2014. As the standard-setting process is still ongoing, the Company is unable to determine the impact this proposed change in accounting will have in the Company’s condensed consolidated financial statements at this time.

In August 2010, the FASB issued an exposure draft, *Leases*, which would result in significant changes to the accounting requirements for both lessees and lessors in ASC Topic 840, *Leases*. In May 2013, the FASB re-exposed this draft and the comment period was closed in September 2013. As the standard-setting process is still ongoing, the Company is unable to determine the impact this proposed change in accounting will have in the Company’s condensed consolidated financial statements at this time.

In November 2013, the FASB issued an exposure draft, *Development Stage Entities*. The amendments in this proposed update would remove the definition of a development stage entity from ASC Topic 915, *Development Stage Entities*, thereby removing the distinction between development stage entities and other reporting entities from GAAP. In addition, the proposed amendments would eliminate the requirements for development stage entities to (1) present inception-to-date information on the statements of income, cash flows, and shareholder's equity, (2) label the financial statements as those of a development stage entity, (3) disclose a description of the development stage activities in which the entity is engaged, and (4) disclose in the first year in which the entity is no longer a development stage entity that in prior years it had been in the development stage. The comment period for this exposure draft was closed in December 2013. The Company expects to record significant revenues beginning April 1, 2014. Accordingly, the presentation and disclosure requirements for development stage activities will not be required.

**NOTE 2. RESTRICTED SHORT-TERM INVESTMENT**

The restricted short-term investment at March 31, 2014 and December 31, 2013, consists of a certificate of deposit, which is classified as held-to-maturity. At March 31, 2014 and December 31, 2013, the restricted short-term investment was recorded at amortized cost which approximates fair value.

At March 31, 2014 and December 31, 2013, the certificate of deposit of \$50,127 and \$50,097, respectively, was classified as a current asset. The certificate of deposit is required as collateral under the Company's corporate credit card agreement and automatically renews every twelve months.

**NOTE 3. ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses consisted of the following:

	<u>March 31, 2014</u>	<u>December 31, 2013</u>
Accounts payable	\$ 357,105	\$ 261,924
Other accrued expenses	100,000	50,000
<b>Total accounts payable and accrued expenses</b>	<u>\$ 457,105</u>	<u>\$ 311,924</u>

**NOTE 4. STOCKHOLDERS' EQUITY AND STOCK-BASED COMPENSATION**

**Common Stock**

During the three months ended March 31, 2014, the Company issued a total of 89,906 shares of common stock for gross proceeds of \$330,854 for stock option exercises.

In the three months ended March 31, 2014, the Company issued 22,281 shares of common stock to net settle common stock options to purchase 41,664 shares of common stock with exercise prices of \$3.60 - \$3.68 per share pursuant to cashless exercise provisions.

During the three months ended March 31, 2014, the Company issued 3,164 shares of common stock for gross proceeds of \$18,747 for warrant exercises.

**Preferred Stock**

At March 31, 2014, the Company had 5,000,000 shares of preferred stock, \$0.001 par value, authorized and no shares of preferred stock issued and outstanding.























































































