

RenovaCare, Inc.
Form 10-Q
November 13, 2014

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, 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 **000-30156**

RENOVACARE, INC.
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation)

98-0384030
(I.R.S. Employer Identification No.)

430 Park Avenue
Suite 702

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New York, NY 10022

(Address of principal executive offices)

800-755-5815

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has 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 smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	..	Accelerated filer	..
Non-accelerated filer	..	Smaller reporting company	x

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

As of November 13, 2014, the registrant had 66,575,122 shares of its common stock, par value \$0.00001 per share, issued and outstanding.

RENOVACARE, INC.

FORM 10-Q

For The Quarter Ended September 30, 2014

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PART I

Item 1. Financial Statements

RENOVACARE, INC.
CONSOLIDATED BALANCE SHEETS

	September 30, 2014 (unaudited)	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	\$ 889,795	\$ 1,508,843
Prepaid expenses	16,894	1,230
Other receivables	2,400	-
Total current assets	909,089	1,510,073
Note receivable from Duke Mountain	80,000	80,000
Intangible assets	162,854	162,854
Total assets	\$ 1,151,943	\$ 1,752,927
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 15,641	\$ 11,222
Accrued expenses - related parties	45,978	44,219
Other current liabilities	137,500	-
Total current liabilities	199,119	55,441
Long term liabilities		
Other long term liabilities	237,500	-
Total liabilities	\$ 436,619	\$ 55,441
STOCKHOLDERS' EQUITY		
Preferred stock: \$0.0001 par value: Authorized: 10,000,000 shares		
Issued and outstanding: nil	-	-
Common stock: \$0.00001 par value: Authorized: 500,000,000		
Issued and outstanding: 66,575,122 shares	666	666
Additional paid-in capital	8,116,001	7,220,612
Accumulated deficit	(7,401,343)	(5,523,792)
Total stockholders' equity	715,324	1,697,486
Total liabilities and stockholders' equity	\$ 1,151,943	\$ 1,752,927

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(The accompanying notes are an integral part of these consolidated financial statements)

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RENOVACARE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue	\$ -	\$ -	\$ -	\$ -
Expenses				
Research and development expenses	902,219	-	956,719	-
General and administrative expenses	373,629	184,862	920,832	329,103
Total operating expenses	1,275,848	184,862	1,877,551	329,103
Net loss from continuing operations	(1,275,848)	(184,862)	(1,877,551)	(329,103)
Discontinued operations				
Gain on disposal of oil and gas property	-	-	-	49,338
Gain (Loss) on discontinued operations	-	-	-	49,338
Net loss	\$ (1,275,848)	\$ (184,862)	\$ (1,877,551)	\$ (279,765)
Earnings per share - basic and diluted				
Loss per common share continuing operations	\$ (0.02)	(0.00)	(0.03)	(0.01)
Income (loss) per common share discontinued operations	0.00	0.00	0.00	0.00
Loss per common share	\$ (0.02)	\$ (0.00)	\$ (0.03)	\$ (0.01)
Weighted average shares outstanding	66,575,122	63,075,122	66,575,122	63,075,122

(The accompanying notes are an integral part of these consolidated financial statements)

RENOVACARE, INC.**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY****For the nine months ended September 30, 2014 and the year ended December 31, 2013****(unaudited)**

	Common Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	paid-in	deficit	other	
			capital		comprehensive	
					(loss)	
Balance, December 31, 2012	63,075,122	\$ 631	\$ 5,462,236	\$ (4,491,004)	\$ (4,104)	\$ 967,759
Stock based compensation						
-Series A Warrant	-	-	237,971	-	-	237,971
Stock based compensation – options	-	-	15,440	-	-	15,440
Issuance of Units	3,500,000	35	1,504,965	-	-	1,505,000
Reclassification adjustment on disposal of subsidiary	-	-	-	-	4,104	4,104
Net loss December 31, 2013	-	-	-	(1,032,788)	-	(1,032,788)
Balance, December 31, 2013	66,575,122	666	7,220,612	(5,523,792)	-	1,697,486
Stock based compensation - Series A Warrant	-	-	848,388	-	-	848,388
Stock based compensation – options	-	-	47,001	-	-	47,001
Net loss, September 30, 2014	-	-	-	(1,877,551)	-	(1,877,551)
Balance, September 30, 2014	66,575,122	\$ 666	\$ 8,116,001	\$ (7,401,343)	\$ -	\$ 715,324

(The accompanying notes are an integral part of these consolidated financial statements)

RENOVACARE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

**For the Nine Months
Ended
September 30,
2014 2013**

Cash flows from operating activities:

Net loss	\$ (1,877,551)	\$ (279,765)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Stock based compensation expense	47,001	9,622
Stock based consulting expense	848,388	54,668
Gain on disposal of oil and gas properties	-	(49,338)
Changes in operating assets and liabilities:		
Decrease (increase) in receivables	(2,400)	800
Decrease (increase) in prepaid expenses	(15,664)	6,058
(Decrease) increase in accounts payable and accrued expenses	6,178	83,313
(Decrease) increase in current liabilities	137,500	-
(Decrease) increase in long term liabilities	237,500	-
Net cash flows from operating activities	(619,048)	(174,642)

Cash flows from investing activities:

Proceeds from disposal of oil and gas properties	-	3,000
Acquisition of intellectual property	-	(105,854)
Net cash flows from investing activities	-	(102,854)

Change in cash and cash equivalents	(619,048)	(277,496)
Cash and cash equivalents, beginning of period	1,508,843	513,595
Cash and cash equivalents, end of period	\$ 889,795	\$ 236,099

(The accompanying notes are an integral part of these consolidated financial statements)

RENOVACARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization, Nature and Continuance of Operations

RenovaCare, Inc., together with its wholly owned subsidiary (the “Company”), focuses on the acquisition, research, development and, if warranted, commercialization of autologous (using a patient’s own cells) cellular therapies that can be used for medical and aesthetic applications. The Company was previously involved in the exploration and development of both mineral exploration properties and oil and gas properties.

On July 12, 2013, the Company, through its wholly owned subsidiary, RenovaCare Sciences Corp. (“RenovaCare Sciences”), completed the acquisition of its flagship technology, a treatment methodology for skin isolation, spraying and associated equipment for the regeneration of human skin cells (the “Cell Deposition Device”), along with the associated United States patent applications and two (2) foreign patents, the first of which expires on August 22, 2027 and the second of which expires on April 26, 2031. The Company effected the acquisition of the Cell Deposition Device through an asset purchase agreement with Dr. Gerlach on July 12, 2013, and paid Dr. Gerlach an initial sum of \$100,002 at that time. This asset purchase agreement was amended on September 9, 2014 (the “Amended APA”). Pursuant to the terms of the Amended APA, the Company is obligated to pay Dr. Gerlach an additional \$300,000 in four installments: (a) \$100,000 on December 31, 2014; (b) \$50,000 on December 31, 2015; (c) \$50,000 on December 31, 2016; and (d) \$100,000 on December 31, 2017. Additionally, the Company issued to Dr. Gerlach a Series A Warrant allowing him to purchase up to 1,200,000 shares of our common stock at a purchase price of \$0.35 per share.

The Company has recently incurred net operating losses and operating cash flow deficits. As of September 30, 2014, the Company’s total accumulated deficit is \$7.4 million. The Company does not currently generate revenues and will continue to incur losses from operations and operating cash flow deficits in the future. Management believes that the Company’s cash and cash equivalent balances, anticipated cash flows from operations and other external sources of capital will be sufficient to meet the Company’s cash requirements through March 31, 2015. The future of the Company after March 2015 will depend in large part on its ability to successfully raise capital from external sources to fund operations.

2. Significant Accounting Policies

Basis of Presentation and Principles of Accounting

The interim consolidated financial statements included herein have been prepared by the Company, without audit, in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”) pursuant to Part 210 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to such SEC rules and regulations, although the Company believes that the disclosures included are adequate to make the information presented not misleading.

In management’s opinion, the unaudited consolidated financial statements contained herein reflect all adjustments, consisting solely of normal recurring items, which are necessary for the fair presentation of the Company’s financial position, results of operations, and cash flows on a basis consistent with that of the Company’s prior audited consolidated financial statements. The Company has evaluated information about subsequent events that became available to us through the date the financial statements were issued. This information relates to events, transactions or changes in circumstances that would require us to adjust the amounts reported in the financial statements or to disclose information about those events, transactions or changes in circumstances. However, the results of operations for interim periods may not be indicative of results to be expected for the full fiscal year. Therefore, these financial statements should be read in conjunction with the Company’s audited financial statements, including the notes thereto for the year ended December 31, 2013, which may be found under the Company’s profile on EDGAR.

Principles of Consolidation

These consolidated financial statements have been prepared in accordance with US GAAP and include the accounts of the Company and its wholly owned subsidiary, RenovaCare Sciences. All significant intercompany transactions and balances have been eliminated. RenovaCare Sciences was incorporated under the laws of the State of Nevada on June 12, 2013.

Applicable Accounting Guidance

Any reference in these notes to applicable accounting guidance is meant to refer to the authoritative non-governmental US GAAP as found in the Financial Accounting Standards Board's Accounting Standards Codification.

In June 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-10, Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements. ASU 2014-10 eliminates the distinction of a development stage entity and certain related disclosure requirements, including the elimination of inception-to-date information on the statements of operations, cash flows and stockholders' equity. The amendments in ASU 2014-10 will be effective prospectively for annual reporting periods beginning after December 15, 2014, and interim periods within those annual periods, however early adoption is permitted. The Company adopted ASU 2014-10 during the quarter ended June 30, 2014, thereby no longer presenting or disclosing any information required by Topic 915.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") 605, Revenue Recognition. The new revenue recognition standard requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for interim and annual reporting periods beginning after December 15, 2016 and is to be applied retrospectively. The Company does not currently have any revenue. As such, ASU 2014-09 will not have any effect on the Company's results of operations and financial position. If the Company begins generating revenue prior to the effective date of ASU 2014-09, it will evaluate the effect that ASU 2014-09 will have on its results of operations and financial position.

Accounting Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported

amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results, as determined by future events, may differ from these estimates.

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents may at times exceed federally insured limits.

Note Receivable from Duke Mountain

The note receivable from Duke Mountain Resources, Inc. (“Duke”) is unsecured, bears interest at 4.0% and principal and interest are due on December 31, 2015. The Company’s credit risk assessment is limited due to the related party nature of the arrangement.

Fair Value of Financial Instruments

The carrying amounts for cash and cash equivalents and current and long term liabilities approximate fair value based on observable quoted prices for active markets – Level 1 inputs. The carrying amount of the note receivable from Duke approximates fair value based on similar market inputs for interest rates for a specific creditor – Level 2 inputs.

Research and Development Costs

The Company intends to outsource its research and development efforts and expense related costs as incurred, including the cost of manufacturing product for testing, licensing fees and costs associated with planning and conducting clinical trials. The value ascribed to patents and other intellectual property acquired will be capitalized as it relates to particular research and development projects that may have alternative future uses.

Intangible Assets

The intangible asset consists primarily of Cell Deposition Device technology that the Company acquired during 2013 and is recorded at cost. At the time of acquisition the technology had not reached technological feasibility. The amount capitalized is accounted for as an indefinite-lived intangible asset, subject to impairment testing until completion or abandonment. Upon successful completion, a determination will be made as to the then useful life of the intangible asset, generally determined by the period in which substantially all of the cash flows are expected to be generated, and begin amortization. The Company tests the intangible asset for impairment at least annually or more frequently if impairment indicators exist after performing a qualitative analysis. Management has multiple criteria that it considers when performing the qualitative analysis. The results of this review are then weighed and prioritized. If the totality of the relevant events and circumstances indicate that it is not more likely than not that the fair value of the intangible asset is less than its carrying amount, additional impairment tests are not necessary.

The Company assessed the following qualitative factors that could affect any change in the fair value of the intangible asset: analysis of the technology's current phase, additional testing necessary to bring the technology to market, development of competing products, changes in projections caused by delays, changes in regulations, changes in the market for the technology and changes in cost projections to bring the technology to market. Based on a qualitative assessment, management concluded that a positive assertion can be made from the qualitative assessment that it is not more likely than not that the fair value of the intangible asset is less than its carrying amount.

Stock Options

The Company measures all stock-based compensation awards using a fair value method on the date of grant and recognizes such expense in its consolidated financial statements over the requisite service period. The Company uses the Black-Scholes pricing model to determine the fair value of stock-based compensation awards on the date of grant. The Black-Scholes pricing model requires management to make assumptions regarding option lives, expected volatility, and risk free interest rates.

Income Taxes

The Company recognizes income taxes on an accrual basis based on tax positions taken, or expected to be taken, in tax returns. A tax position is defined as a position in a previously filed tax return or a position expected to be taken in future tax filing that is reflected in measuring current or deferred income tax assets and liabilities. Tax positions are recognized only when it is more likely than not (i.e., likelihood of greater than 50%), based on technical merits, that the position would be sustained upon examination by taxing authorities. Tax positions that meet the more likely than not threshold are measured using a probability-weighted approach as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement. Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. A valuation allowance is established to reduce deferred tax assets if all, or some portion, of such assets will more than likely not be realized. Should they occur, the Company's policy is to classify interest and penalties related to tax positions as interest expense. Since the Company's inception, no such interest or penalties have been incurred. The Company did not record an income tax provision during the periods presented due to net taxable losses.

Discontinued Operations

The results of the Company's oil and gas and mineral assets are being reported as discontinued operations as a result of the sale of the oil and gas properties in February 2013 and the sale of the Company's subsidiary which controlled various mineral leases and claims in December 2013. Certain amounts reported in the prior periods presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported net income (loss).

Earnings (Loss) Per Share

The Company presents both basic and diluted earnings per share ("EPS") amounts. Basic EPS is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the period presented. Diluted EPS amounts are based upon the weighted average number of common and common equivalent shares outstanding during the period presented. Potentially dilutive shares of common stock consisted of warrants to purchase shares of common stock (8,200,000 shares as of September 30, 2014 and December 31, 2013) and options to purchase shares of common stock (185,000 shares as of September 30, 2014 and 80,000 as of December 31, 2013). During the periods presented, potentially dilutive shares of common stock were not included in the computation of dilutive loss per share as to do so would be anti-dilutive.

Related Party Transactions

A related party is generally defined as (i) any person who holds 10% or more of the Company's securities and their immediate families; (ii) the Company's management; (iii) someone who directly or indirectly controls, is controlled by or is under common control with the Company; or (iv) anyone who can significantly influence the financial and operating decisions of the Company. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. See "Note 6. Related Party Transactions," for further discussion.

3. Intangible Assets – Intellectual Property

On July 12, 2013, the Company, together with its wholly owned subsidiary, RenovaCare Sciences, entered into an asset purchase agreement with Dr. Jörg Gerlach, MD, PhD, pursuant to which RenovaCare Sciences purchased all of Dr. Gerlach's rights, title and interest in the Cell Deposition Device. The Company plans to further the development of the Cell Deposition Device and, if commercially viable, bring the product to market. This asset purchase agreement was amended on September 9, 2014 (the "Amended APA"). Pursuant to the terms of the Amended APA, upon the

closing of the transaction in July 2013, the Company paid Dr. Gerlach \$100,002. An additional \$300,000 will be paid in four installments: (a) \$100,000 on December 31, 2014; (b) \$50,000 on December 31, 2015; (c) \$50,000 on December 31, 2016; and (d) \$100,000 on December 31, 2017.

At September 30, 2014, \$100,000 of the amount payable to Dr. Gerlach was recorded as other current liabilities and \$200,000 was recorded as other long term liabilities in the accompanying consolidated balance sheet.

As further consideration for the Cell Deposition Device, the Company issued to Dr. Gerlach a Series A Stock Purchase Warrant (the "Series A Warrant") entitling him to purchase 1,200,000 shares (each a "Warrant Share") of the Company's common stock at an exercise price of \$0.35 per share. Pursuant to the terms of the Amended APA, the Series A Warrant will now vest in five equal installments of 240,000 shares on each of July 12, 2014, July 12, 2015, July 12, 2016, July 12, 2017 and July 12, 2018. Vesting will no longer be contingent on the achievement of certain milestones and on Dr. Gerlach's continuing to provide consulting services to the Company, but instead on passage of time. Prior to September 9, 2014, the effective date of the Amended APA, the value of the Series A Warrant was recognized as consulting expenses over the vesting term. In addition, the fair value of each Warrant Share was estimated at the end of each reporting period during which Dr. Gerlach rendered services using the Black-Scholes option pricing model. Effective September 9, 2014, the Company measured and expensed the value of the Series A Warrant in full and recorded this value as research and development costs. The fair value of each Warrant Share as of September 9, 2014, using the Black-Scholes option pricing model, was \$0.91.

Assumptions required for the Black-Scholes model are as follows:

Weighted average risk-free interest rate	1.72	%
Expected life in years	4.75	Years
Weighted Avg Expected Volatility	93.8	%
Expected dividend yield	0	%

Consulting expense associated with the Series A Warrant amounted to \$115,840 and \$311,173 during the three and nine months ended September 30, 2014. Research and development expense associated with the Series A Warrant amounted to \$537,217 during both the three and nine months ended September 30, 2014. Consulting expense associated with the Series A Warrant during both the three and nine months ended September 30, 2013 was \$54,668.

4. Common Stock Option

Approval of the 2013 Long-Term Incentive Plan

On June 20, 2013, the Board of Directors (the “Board”) adopted, subject to receiving shareholder approval, the 2013 Long-Term Incentive Plan (the “Incentive Plan”). The Incentive Plan provides for the issuance of stock options of up to 20,000,000 shares (subject to adjustment) of the Company’s common stock to officers, directors, key employees and consultants of the Company. Options granted to employees under the Incentive Plan, including directors and officers who are employees, may be incentive stock options or non-qualified stock options; options granted to others under the Incentive Plan are limited to non-qualified stock options. On November 15, 2013, shareholders owning a majority of the Company’s issued and outstanding shares approved the Incentive Plan.

The Incentive Plan is administered by the Board or a committee designated by the Board. Subject to the provisions of the Incentive Plan, the Board has the authority to determine the officers, employees and consultants to whom options will be granted, the number of shares covered by each option, vesting rights and the terms and conditions of each option that is granted to them; however, no person may be granted in any of the Company’s fiscal year, options to purchase more than 2,000,000 shares under the Incentive Plan, and the aggregate fair market value (determined at the time the option is granted) of the shares with respect to which incentive stock options are exercisable for the first time by an optionee during any calendar year cannot exceed \$100,000. Options granted pursuant to the Incentive Plan are exercisable no later than ten years after the date of grant.

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The exercise price per share of common stock for options granted under the Incentive Plan will be the fair market value of the Company's common stock on the date of grant, using the closing price of the Company's common stock on the last trading day prior to the date of grant, except for incentive stock options granted to a holder of ten percent or more of the Company's common stock, for whom the exercise price per share will not be less than 110% of the fair market value. No option can be granted under the Incentive Plan after June 20, 2023.

As of September 30, 2014, there were 19,815,000 shares available for grant.

Stock Option Activity

On August 1, 2013, the Company granted to each of Messrs. Kirkland and Sierchio 20,000 stock options. The exercise price per share is \$0.65; 10,000 options vested on the grant date and, subject to continued service as a member of the Company's Board, the remaining 10,000 options vested on August 1, 2014 and may be exercised on a "cashless basis" using the formula contained therein.

Effective December 1, 2013, the Company appointed Mr. Bold as its President & CEO and entered into an at-will consulting agreement (the "Consulting Agreement") with Mr. Bold. Pursuant to the terms of the Consulting Agreement, Mr. Bold was issued a stock option to purchase up to 40,000 shares of the Company's common stock (the "Option Shares") at a price of \$0.75 per share the closing price of the Company's common stock as quoted on the OTCQB on November 29, 2013. The Options Shares may be exercised on a "cashless basis" using the formula contained therein and, subject to Mr. Bold's continued service as the Company's President and Chief Executive Officer, the Options Shares vest as follows, 20,000 on: (a) December 1, 2014; and (b) December 1, 2015.

On April 1, 2014, the Company appointed Ms. Patsy Trisler as its Vice President – Clinical & Regulatory Affairs and entered into an at-will consulting agreement (the "Trisler Consulting Agreement") with Ms. Trisler. Pursuant to the terms of the Trisler Consulting Agreement, Ms. Trisler was issued Option Shares to purchase up to 50,000 shares of the Company's common stock at a price of \$1.05 per share, the closing price of the Company's common stock as quoted on the OTCQB on April 1, 2014. The Options Shares may be exercised on a "cashless basis" using the formula contained therein and, subject to Ms. Trisler's continued service as the Company's Vice President – Clinical & Regulatory Affairs, the Options Shares vest as follows, 10,000 on: (a) April 1, 2015; (b) April 1, 2016; (c) April 1, 2017; (d) April 1, 2018; and (e) April 1, 2019.

On April 20, 2014, the Company appointed Andrew Danielson as its Director of Business Development and issued Mr. Danielson Option Shares to purchase 5,000 shares of the Company's common stock at a price of \$1.05 per share, the closing price of the Company's common stock as quoted on the OTCQB on April 17, 2014. The Options Shares may be exercised on a "cashless basis" using the formula contained therein and, subject to Mr. Danielson's continued service with the Company. The Options Shares vest on April 20, 2015.

On August 14, 2014, the Company granted