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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2016

OR

[ ] 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)	(IRS 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)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, $0.001 par value per share	The NASDAQ Capital Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. **Yes [ ] No [X]**

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. **Yes [ ] No [X]**

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. **[ ]**

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. (Check one):

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

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

As of June 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $45 million, based on the closing price of $3.76 for the registrant's common stock as quoted on The NASDAQ Capital Market on that date. For purposes of this calculation, it has been assumed that shares of common stock held by each director, each officer

and each person who owns 10% or more of the outstanding common stock of the registrant are held by affiliates of the registrant. The treatment of these persons as affiliates for purposes of this calculation is not conclusive as to whether such persons are, affiliates of the registrant for any other purpose.

As of March 20, 2017, there were 18,627,915 shares of the registrant's common stock outstanding.

Portions of the registrant's definitive proxy statement for its 2017 Annual Meeting of Stockholders (Proxy Statement) are incorporated by reference in Part III of this annual report on Form 10-K (Annual Report), to the extent stated herein.

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As used in this Annual Report, unless indicated or the context requires otherwise, the terms the "Company", "Imprimis" "we", "us" and "our" refer to Imprimis Pharmaceuticals, Inc. and its consolidated subsidiaries.

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 Annual Report other than statements of historical fact are forward-looking statements. These forward-looking statements involve risks and uncertainties and reflect only our current views, expectations and assumptions with respect to future events and our future performance. If risks or uncertainties materialize or assumptions prove incorrect, actual results or events could differ materially from those expressed or implied by such forward-looking statements. Risks that could cause actual results to differ from those expressed or implied by the forward-looking statements we make include, among others, risks related to: our ability to successfully implement our business plan, develop and commercialize our proprietary formulations in a timely manner or at all, identify and acquire additional proprietary formulations, manage our pharmacy operations, service our debt, obtain financing necessary to operate our business, recruit and retain qualified personnel, manage any growth we may experience and successfully realize the benefits of our acquisitions of Pharmacy Creations, LLC ("Pharmacy Creations"), South Coast Specialty Compounding, Inc. D/B/A Park Compounding ("Park"), Thousand Oaks Holding Company's wholly-owned subsidiaries Topical Apothecary Group, LLC (d/b/a TAG Pharmacy), Aerosol Science Laboratories, Inc. (d/b/a ASL Pharmacy), SinuTopic, Inc. (d/b/a Sinus Dynamics Pharmacy) and Mycotoxins, LLC (collectively "ImprimisRx PA"), and any other acquisitions and collaborative arrangements we may pursue; competition from pharmaceutical companies, outsourcing facilities and pharmacies; general economic and business conditions; regulatory and legal risks and uncertainties related to our pharmacy operations and the pharmacy and pharmaceutical business in general; physician interest in and market acceptance of our current and any future formulations and compounding pharmacies generally; our limited operating history; and the other risks and uncertainties described under the heading "Risk Factors" in Part I, Item 1A of this Annual 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.

We have registered trademarks, copyrights and/or pending trademark and copyright applications for Imprimis®, ImprimisRx®, Imprimis Pharmaceuticals®, Imprimis Cares®, Imprimis Cares!®, SSP Technology®, Dropless®, Go Dropless®, Go Dropless! ®, GoDropless®, LessDrops®, Dropless Cataract Surgery®, Dropless Cataract Therapy®, Dropless Therapy®, Tri-Moxi®, Pred-Moxi®, HLA®, Triple Drop®, ED Free®, Defeat IC©, Say Goodbye©, PPS-DR®, Stericheck™, Pred-Moxi-Ketor™, Pred-Moxi-Brom™, Pred-Ketor®, Dex-Moxi®, Combination Drop Therapy™, Compounded Alternative™, Compounded Choice™, Custom Compounding™, Custom Compounding Choice™, Pred-Gati™, Pred-Gati-Nepaf™, Pred-Nepaf™, Correct Compound™, Making Drugs Affordable Again™, Superbundle™, People-Focused™, MKO Melt™, IV Free™, Imprimis Dropless Cataract Therapy®, LessDrops® (logo), Imprimis LessDrops®, Imprimis Dropless Cataract Surgery®, Pred-Gati™, Pred-Gati-Nepaf™, Pred-Nepaf™, Pred-Gati-Brom™, Pred-Gati-Ketor™, Dex-Moxi-Ketor™, Moxi™, Dex-Gati™, Correct Compound™, Lat™, Lat-Ds™, Tim-Lat™, Tim-Dor-Lat™, Tim-Brim-Dor™, Tim-Brim-Dor-Lat™, Pred-Levo-Ketor™, Pred-Levo-Brom™, Pred-Levo-Nepaf™, Tri-Moxi-Vanc™, Smartdrops™, Smarteyedrops™, Serum Tears™, Plasma Tears™, PRP Tears™, Omegadoxy™, Double Drop™, Quad Drop™, Lower Drops™, Simple Drops™, and Glaucoma Care™. We may choose to pursue trademark protection in other jurisdictions for one or more of these or other marks in the future. All other trademarks, service marks and trade names included or incorporated by reference into this Annual Report, are the property of their respective owners.

PART I

ITEM 1. BUSINESS

Overview

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

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

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

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

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 $76,851 at December 31, 2016. 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.

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

Ophthalmology

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

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

Dropless Therapy

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

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

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

LessDrops Combination Eye Drops

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

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

Glaucoma Eye Drops

During the second quarter of 2017, we intend to launch 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.

MKO Melt™ Conscious Sedation

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

Integrative Medicine

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

Urology

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

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

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

Other Markets and Development Programs

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

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

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

We have developed a patent-pending formulation that may be prescribed by physicians as a therapeutic alternative to an off-patent drug (name withheld for competitive reasons) that is prescribed for various indications mainly related to autoimmune diseases. The incumbent drug is known to present stability challenges, we have stability and potency data on our formulation beyond 120 days. The incumbent drug has no generic competition and annual sales were over $1 billion in the U.S. during 2016. We are currently evaluating potential opportunities for this formulation including working on its development and commercialization with a strategic partner and/or developing our own clinical development program.

Customer Relationships

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

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

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

Production Facilities

We produce and dispense our proprietary and non-proprietary medications directly to our customers through our three ImprimisRx facilities located in Ledgewood, New Jersey, Irvine, California and Folcroft, Pennsylvania. Our New Jersey facility is comprised of two separate entities/facilities, with one facility registered with the FDA as an outsourcing facility ("NJOF") under Section 503B of the Federal Food, Drug & Cosmetic Act (FDCA). The other New Jersey facility ("NJRX") and our California and Pennsylvania facilities make and sell both sterile and non-sterile medications are all licensed as pharmacies operating under Section 503A of the FDCA.

Pharmaceutical Compounding

All of our commercial products are compounded by combining different active pharmaceutical ingredients (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 particular patient's needs. In many cases, compounded drugs such as ours have wide market utility and appeal for large patient populations. 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 physician may also work together with a pharmacist to repurpose or reformulate FDA-approved drugs via the compounding process to meet a patient's specific medical needs. Our ImprimisRx compounding pharmacies receive their active pharmaceutical ingredients from three main suppliers, which accounted for 63 percent of drug and chemical purchases in 2016, also see Note 17 to our consolidated financial statements included in this Annual Report for further information.

We currently operate our pharmacy businesses under Sections 503A and 503B of the FDCA. Under the FDA's current policy, a pharmacy operating under Section 503A of the FDCA is only permitted to compound a drug for an individually identified patient based on a prescription for that patient, and is only permitted to distribute the drug interstate if the pharmacy is licensed to do so in the states where it is compounded and where it is received. Our ImprimisRx compounding pharmacies are collectively licensed to distribute compounded formulations in 50 states. Federal law limits compounding pharmacies from engaging in the practice of anticipatory compounding, which involves, preparing compounded medications before the actual receipt of a prescription or practitioner's order, unless the compounding pharmacy has a history of filling certain prescriptions for a customer. In such cases, it is legal to engage in anticipatory compounding or the preparation of larger batches so that medications will be ready when they are needed. Anticipatory compounding also reduces the cost of compounded medications, as economies of scale can be realized by producing larger batches. Anticipatory compounding also leads to less wasted chemicals, dilutions, fillers, and other associated products are produced, and greater accuracy and uniformity in finished medications, as larger batches decrease the variation caused by preparing multiple, smaller batches. Based on our history of meeting the needs of our customers, we are able to anticipatorily compound adequately and efficiently prepare batches of our formulations.

Outsourcing Facility Strategy

Section 503B of the FDCA provides that a pharmacy engaged in preparing sterile compounded drug formulations may voluntarily elect to register as an "outsourcing facility." Outsourcing facilities are permitted to compound large quantities of drugs without a prescription and distribute them out of state with certain limitations such as the formulation appearing on the FDA's drug shortage list or the bulk drug substances contained in the formulations appearing on the FDA's "clinical need" list. According to the University of Utah's Drug Information Service, there were over 140 drugs on the FDA's drug shortage list during 2015, while the "clinical need" list has not yet been established by FDA. Entities voluntarily registering as outsourcing facilities are subject to additional requirements that do not apply to compounding pharmacies, including current good manufacturing practices (cGMP) and regular FDA inspection. Due to the clinical need of the formulations we offer and the nature of the active pharmaceutical ingredient components, we believe our formulations will be eligible for compounding by and distribution from Section 503B outsourcing facilities.

In October 2016, we registered NJOF with the FDA as a Section 503B outsourcing facility. We estimate that our capital expenditures to build and equip our NJOF facility were approximately $5,770, of which, we have paid approximately $5,680, as of December 31, 2016. We have also finalized improvements to our California based pharmacy. We have invested approximately $530, to make the improvements and added capacity to the pharmacy, of which we have paid approximately $403, as of December 31, 2016. We completed the improvement efforts at our California pharmacy in January 2017.

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

We believe that, with our current compounding pharmacy facilities and licenses and the successful completion and registration of our planned outsourcing facilities, we will have the infrastructure to scale our business appropriately under the current regulatory landscape and meet the growth in demand we are targeting in the ophthalmology, urology and other therapeutic areas. We plan to invest in one or more of our pharmacies to further their capacity and efficiencies. We may seek to access greater redundancy and markets through acquisitions, partnerships or other strategic transactions.

Sales and Marketing

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. 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. We also may choose to pursue commercialization of our proprietary formulations in other selected markets through licensing or collaborative arrangements with strategic partners in the future.

Formulation Development and Commercialization Pathway

Our model for the selection and development of proprietary formulations focuses on assessing new development opportunities using a four-step proprietary process, consisting of the identification, evaluation, validation, and ultimately commercialization of selected opportunities. Our relationships with inventive physicians and pharmacists provide us with access to numerous formulation candidates and technologies to evaluate and validate. These medications are initially made for individual patients and are developed based on the physician's and pharmacist's experience formulating a new therapy to address an unmet need. As a result of our review process, we focus our commercialization efforts on a select group of promising formulations that we believe may be patentable and that could have broad appeal to patients and physicians. 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.

Identify

Our innovation model, which serves as our research and development pipeline, relies on our relationships and partnerships with inventors to identify and secure new development assets. We are strategically attentive to the ideas generated by pharmacists, who work directly with doctors and their patients to address specific and often unmet patient needs, in our identification of formulations to develop and commercialize. We believe that our collaborative relationships with a growing group of physicians and pharmacists will bring additional clinically and commercially relevant formulation opportunities to us for potential development.

Evaluate

After we have identified potential formulations and technology for development, we subject them to our proprietary evaluation process. We invest heavily in intellectual property review and analysis at this stage, which includes analyzing the patentability of each formulation and, more generally, trying to understand the surrounding intellectual property landscape. We also evaluate any existing supportive clinical data, identify one or more appropriate commercialization pathways to potentially make the therapy available to patients and, for selected candidates, ultimately seek to acquire, through ownership or licensing of development rights, the formulations we believe are the most promising.

Validate

Following the identification and evaluation process and our acquisition of development rights, we seek to validate our assessment of potential drug formulations through our review of any existing clinical data and documented patient experience and through our sponsorship of investigator-initiated studies, which are typically funded or co-funded by us and conducted by physician groups. Any clinical data we obtain may be used to support physicians' clinical confidence in prescribing the formulation in compounded form or, if we decide to pursue FDA approval for a particular candidate to support a development program in connection with the pursuit of such approval. The costs associated with our validation approach may be significantly lower than a traditional FDA approval process because, if we consider and select compounding as an appropriate commercialization pathway, we would not need to obtain FDA approval in order to market and sell the formulation.

Commercialize

Following successful results in the first three steps of our assessment, we focus on commercialization. As part of the development of potential formulations, we evaluate and select an appropriate commercialization pathway to make these therapies available to patients. We consider multiple commercialization pathways, including dispensing formulations through compounding pharmacies and outsourcing facilities and pursuing FDA approval to market and sell a drug formulation or technology. We are pursuing, and expect to continue to pursue, a compounding commercialization strategy for our currently available proprietary formulations and the other assets that we currently own or have rights to develop, and we do not presently expect to pursue FDA approval for any of these formulations or other assets. Depending on the selected commercialization pathway, we would build, or contract with a third party to build, appropriately targeted commercialization teams in order to market the therapies to physicians and patients, consistent with our sales and marketing structure discussed under the "Sales and Marketing" section above.

Competition

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, and we may lack the financial and other resources needed to develop, produce, distribute, market and commercialize any of our proprietary formulations or compete for 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 some of our compounded formulations in accordance cGMP standards our other formulations are produced according to the standards provided by United States Pharmacopoeia (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 operating under Section 503A of the FDCA, 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, who can in turn sell to and supply hospitals and retail pharmacies. Even though we have registered NJOF with the FDA, 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 offering FDA-approved drugs may not face.

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 developing the products, which may require that we seek to raise additional funds that may or may not be available to continue our operations. 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.

Intellectual Property

Our success and ability to compete depends upon our ability to protect our intellectual property. We conduct a fulsome analysis of the intellectual property landscape prior to acquiring rights to formulations and filing patent applications. In addition, as of February 7, 2017, we owned 26 U.S. patent applications, including 21 utility (including continuation, continuation-in-part and divisional) and five provisional patent applications, and we owned five international patent applications filed under the Patent Cooperation Treaty and 19 foreign patent applications. Although our ophthalmology-related patent applications include claims related to non-ophthalmology fields, we have primarily focused our intellectual property development efforts to date on the proprietary compounded formulations in the field of ophthalmology. We presently have 11 U.S. and 9 foreign patent applications pending that relate to our SSP Technology. We expect to file additional patent applications in the U.S. and pursue patent protection for certain of our formulations in other important international jurisdictions in the future.

As of March 15, 2017, we had worldwide 151 issued trademarks, pending trademark and copyright applications, or registered copyright and/or trademarks for Imprimis®, ImprimisRx®, Imprimis Pharmaceuticals®, Imprimis Cares®, Imprimis Cares!®, SSP Technology®, Dropless®, Go Dropless®, Go Dropless! ®, GoDropless®, LessDrops®, Dropless Cataract Surgery®, Dropless Cataract Therapy®, Dropless Therapy®, Tri-Moxi®, Pred-Moxi®, HLA®, Triple Drop®, ED Free®, Defeat IC©, Say Goodbye©, PPS-DR®, Stericheck™, Pred-Moxi-Ketor™, Pred-Moxi-Brom™, Pred-Ketor®, Dex-Moxi®, Combination Drop Therapy™, Compounded Alternative™, Compounded Choice™, Custom Compounding™, Custom Compounding Choice™, Pred-Gati™, Pred-Gati-Nepaf™, Pred-Nepaf™, Correct Compound™, Making Drugs Affordable Again™, Superbundle™, People-Focused™, MKO Melt™, and IV Free™, Imprimis Dropless Cataract Therapy®, LessDrops® (logo), Imprimis LessDrops®, Imprimis Dropless Cataract Surgery®, Pred-Gati™, Pred-Gati-Nepaf™, Pred-Nepaf™, Pred-Gati-Brom™, Pred-Gati-Ketor™, Dex-Moxi-Ketor™, Moxi™, Dex-Gati™, Correct Compound™, Lat™, Lat-Ds™, Tim-Lat™, Tim-Dor-Lat™, Tim-Brim-Dor™, Tim-Brim-Dor-Lat™, Pred-Levo-Ketor™, Pred-Levo-Brom™, Pred-Levo-Nepaf™, Tri-Moxi-Vanc™, Smartdrops™, Smarteyedrops™, Serum Tears™, Plasma Tears™, PRP Tears™, Omegadoxy™, Double Drop™, Quad Drop™, Lower Drops™, Simple Drops™, and Glaucoma Care™. We may choose to pursue trademark protection in other jurisdictions for one or more of these or other marks in the future.

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. However, our employees and consultants may breach these agreements and we may not have adequate remedies for any breach, or our trade secrets may otherwise become known or be independently discovered by competitors. In addition, inventions relevant to us 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.

Governmental Regulation

Our business is subject to federal, state and local laws, regulations, and administrative practices, including, among others: federal, state and local licensure and registration requirements concerning the operation of pharmacies and the practice of pharmacy; the Health Insurance Portability and Accountability Act (HIPAA); the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2012 (collectively, the Health Reform Law); statutes and regulations of the FDA, the U.S. Federal Trade Commission, the U.S. Drug Enforcement Administration and the U.S. Consumer Product Safety Commission, as well as regulations promulgated by comparable state agencies concerning the sale, advertisement and promotion of the products we sell. Below are descriptions of some of the various federal and state laws and regulations which may govern or impact our current and planned operations.

Pharmacy Regulation

Our pharmacy operations are regulated by both individual states and the federal government. Every state has laws and regulations addressing pharmacy operations, including regulations relating specifically to compounding pharmacy operations. These regulations generally include licensing requirements for pharmacists, pharmacy technicians and pharmacies, as well as regulations related to compounding processes, safety protocols, purity, sterility, storage, controlled substances, recordkeeping and regular inspections, among other things. State rules and regulations are updated periodically, generally under the jurisdiction of individual state boards of pharmacy. Failure to comply with the state pharmacy regulations of a particular state could result in a pharmacy being prohibited from operating in that state, financial penalties and/or becoming subject to additional oversight from that state's board of pharmacy. In addition, many states are considering imposing, or have already begun to impose, more stringent requirements on compounding pharmacies. If our pharmacy operations become subject to additional licensure requirements, are unable to maintain their required licenses or if states place burdensome restrictions or limitations on pharmacies, our ability to operate in some states could be limited.

Many of the states into which we deliver pharmaceuticals have laws and regulations that require out-of-state pharmacies to register with, or be licensed by, the boards of pharmacy or similar regulatory bodies in those states. These states generally permit the dispensing pharmacy to follow the laws of the state within which the dispensing pharmacy is located. However, various state pharmacy boards have enacted laws and/or adopted rules or regulations directed at restricting or prohibiting the operation of out-of-state pharmacies by, among other things, requiring compliance with all laws of the states into which the out-of-state pharmacy dispenses medications, whether or not those laws conflict with the laws of the state in which the pharmacy is located, or requiring the pharmacist-in-charge to be licensed in that state. To the extent that such laws or regulations are found to be applicable to our operations, we believe we comply with them.

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.

Certain provisions of the FDCA govern the preparation, handling, storage, marketing and distribution of pharmaceutical products. The Drug Quality and Security Act of 2013 (DQSA) clarifies and strengthens the federal regulatory framework governing compounding pharmacies. Title 1 of the DQSA, the Compounding Quality Act, modifies provisions of the Section 503A of the FDCA that were found to be unconstitutional by the U.S. Supreme Court in 2002. In general, Section 503A provides that pharmacies are exempt from the provisions of the FDCA requiring compliance with cGMP, labeling with adequate directions for use and FDA approval prior to marketing if the pharmacy complies with certain other requirements. Among other things, to comply with Section 503A, a compounded drug must be compounded by a licensed pharmacist for an identified individual patient on the basis of a valid prescription. Pharmacies may only compound in limited quantities before receipt of a prescription for an individual patient and are subject to limitations on anticipatory compounding for distribution, which generally permit anticipatory compounding only based on historical prescription volumes.

The DQSA also contained new Section 503B of the FDCA, which established an outsourcing facility as a new form of entity that is permitted to compound larger quantities of drug formulations without a prescription, thus permitting the practice of anticipatory compounding, and distribute them out of state without limitation, if the drug formulations appear on the FDA's drug shortage list or the bulk drug substances contained in the formulations appear on a "clinical need" list to be established by the FDA. Entities voluntarily registering as outsourcing facilities are subject to cGMP requirements and regular FDA inspection, among other requirements. As described above, our current pharmacy operations comply with Section 503A of the FDCA, and our NJ based outsourcing facility complies with Section 503B of the FDCA.

Confidentiality, Privacy and HIPAA

Our pharmacy operations involve the receipt, use and disclosure of confidential medical, pharmacy and other health-related information. In addition, we use aggregated and blinded (anonymous) data for research and analysis purposes. The federal privacy regulations under HIPAA are designed to protect the medical information of a healthcare patient or health plan enrollee that could be used to identify the individual. Among other things, HIPAA limits certain uses and disclosures of protected health information and requires compliance with federal security regulations regarding the storage, utilization and transmission of and access to electronic protected health information. The requirements imposed by HIPAA are extensive. In addition, most states have enacted privacy and security laws that protect identifiable patient information that is not health-related. Further, several states have enacted more protective and comprehensive pharmacy-related privacy legislation that not only applies to patient records but also prohibits the transfer or use for commercial purposes of pharmacy data that identifies prescribers. These regulations impose substantial requirements on covered entities and their business associates regarding the storage, utilization and transmission of and access to personal health and non-health information. Many of these laws apply to our business.

Medicare and Medicaid Reimbursement

Medicare is a federally funded program that provides health insurance coverage for qualified persons age 65 or older and for some disabled persons with certain specific conditions. State-funded Medicaid programs provide medical benefits to groups of low-income and disabled individuals, some of whom may have inadequate or no medical insurance. Currently, most of our commercially available formulations are sold in cash transactions and our customers may choose to seek reimbursement opportunities from Medicare, Medicaid and other third parties to the extent that they exist. 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.

To the extent we obtain third-party reimbursement for our compounded formulations, we may become subject to Medicare, Medicaid and other publicly financed health benefit plan regulations prohibiting kickbacks, beneficiary inducement and the submission of false claims.

FDA New Drug Application Process

We may choose, alone or with project partners, to pursue FDA approval to market and sell one or more of our formulations through the FDA's new drug application (NDA) process. Since the active pharmaceutical ingredients in all of our formulations have already been approved by the FDA, we could choose to pursue FDA approval of one or more of our formulations under Section 505(b)(2) of the FDCA. Section 505(b)(2) permits the submission of an NDA where at least some of the information required for approval comes from studies not conducted by or for the applicant and for which the applicant has not obtained a right of reference. The applicant may rely upon certain published nonclinical or clinical studies conducted for an approved product or the FDA's conclusions from prior review of such studies. The FDA may also require companies to perform additional studies or measurements to support any changes from the approved product. The FDA may then approve the new product for all or some of the label indications for which the referenced product has been approved, as well as for any new indication sought by the Section 505(b)(2) applicant. While references to nonclinical and clinical data not generated by the applicant or for which the applicant does not have a right of reference are allowed, all development, process, stability, qualification and validation data related to the manufacturing and quality of the new product must be performed for the new product and included in the NDA.

To the extent that the Section 505(b)(2) applicant is relying on the FDA's conclusions regarding studies conducted for an already approved product, the applicant is required to certify to the FDA concerning any patents listed for the approved product in the FDA's Orange Book publication. As a condition of approval, the FDA or other regulatory authorities may require further studies, including Phase 4 post-marketing studies, to provide additional data. Other post-marketing studies may be required to gain approval for the use of a product as a treatment for clinical indications other than those for which the product was initially tested and approved. Also, the FDA or other regulatory authorities require post-marketing reporting to monitor the adverse effects of a drug. Results of post-marketing programs may limit or expand the further marketing of a product.

The FDA closely regulates the post-approval marketing and promotion of drugs, including standards and regulations for direct-to-consumer advertising, off-label promotion, industry-sponsored scientific and educational activities and promotional activities involving the Internet. A company can make only those claims relating to safety and efficacy that are approved by the FDA. Failure to comply with these requirements can result in adverse publicity, warning letters, corrective advertising, fines and potential civil and criminal penalties.

International Regulation

If we pursue commercialization of our proprietary formulations in countries other than the United States, then we may need to obtain the approvals required by the regulatory authorities of such foreign countries that are comparable to the FDA and state boards of pharmacy, and we would be subject to a variety of other foreign statutes and regulations comparable to those relating to our U.S. operations. Regulatory frameworks and requirements vary by country and could involve significant additional licensing requirements and product testing and review periods.

Environmental and Other Matters

We are or may become subject to environmental laws and regulations governing, among other things, any use and disposal by us of hazardous or potentially hazardous substances in connection with our research and preparation of our formulations. In addition, we are subject to work safety and labor laws that govern certain of our operations and our employee relations. In each of these areas, as described above, the FDA and other government agencies have broad regulatory and enforcement powers, including, among other things, the ability to levy fines and civil penalties, suspend or delay issuance of approvals, licenses or permits, seize or recall products, and withdraw approvals, any one or more of which could have a material adverse effect on our business.

Research and Development Expenses

Our research and development expenses incurred in 2015 and 2016 primarily include expenses related to the development of intellectual property, researcher and investigator-initiated evaluations, and research and formulation development related primarily to our ophthalmic formulations and certain other assets.

During the year ended December 31, 2016, we incurred $739 in research and development expenses, as compared to $332 during the year ended December 31, 2015.

Employees

As of March 1, 2017, we employed 144 employees, of which 141 are full-time employees and 3 are part-time employees. Our employees are engaged in pharmacy operations, sales, marketing, research, development, and general and administrative functions. We expect to add additional employees in all departmental functions as we carry out our business plan in the next 12 months. We are not party to any collective bargaining agreements with any of our employees. We have never experienced a work stoppage, and we believe our employee relations are good. We hire independent contractor labor and consultants on an as-needed basis.

Company Information

We were incorporated in Delaware in January 2006 as Bywater Resources, Inc. In September 2007, we closed a merger transaction with Transdel Pharmaceuticals Holdings, Inc. and changed our name to Transdel Pharmaceuticals, Inc. We changed our name to Imprimis Pharmaceuticals, Inc. in February 2012.

On June 26, 2011, we suspended our operations and filed a voluntary petition for reorganization relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of California, Case No. 11-10497-11. On December 8, 2011, in connection with our entry into a line of credit agreement and securities purchase agreement with a third party, our voluntary petition for reorganization relief was dismissed.

In April 2014, January 2015 and August 2015, we completed our acquisitions of the capital stock Pharmacy Creations, Park and ImprimisRx TX, respectively. In October 2015, ImprimisRx PA acquired substantially all of the assets of Thousand Oaks Holding Company and its wholly-owned subsidiaries. In February 2017, we sold 100% of our ownership in ImprimisRx TX.

Our executive offices are located at 12264 El Camino Real, Suite 350, San Diego, California 92130 and our telephone number at such office is (858) 704-4040. Our website address is imprimispharma.com. Information contained on our website is not deemed part of this Annual Report.

ITEM 1A. RISK FACTORS

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

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. As of December 31, 2016, our accumulated deficit was $(76,851). We expect to decrease our operating losses during 2017, however, our projections may not be correct and our plans could change and we could incur increasing operating losses in the foreseeable future for our commercialization activities, research and development and our pharmacy operations. Although we have been generating some revenue from our pharmacy operations, our ability to generate significant revenues and achieve profitability will depend on many factors, including those discussed in this “Risk Factors” section. Our business plan and strategies involve costly activities that are susceptible to failure, and, therefore, we may never be able to generate sufficient revenue to support our business or reach the level of sales and revenues necessary to achieve and sustain profitability.

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

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

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

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

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

- we have experienced delays and increased costs in our outsourcing facility construction efforts;
- we may not be successful in completing future construction plans on a timely basis or within budget;

- we may not be successful in our efforts to integrate, manage or otherwise realize the benefits we expect from acquisitions of our ImprimisRx compounding pharmacies or any additional pharmacy businesses or outsourcing facilities we to acquire or build in the future;

- we may not be able to satisfy applicable federal and state licensing and other requirements for any of our pharmacy businesses in a timely manner or at all;

- changes to federal and state pharmacy regulations may restrict compounding operations or make them more costly;

- we may be unable to achieve a sufficient physician and patient customer base to sustain our pharmacy operations;

- market acceptance of compounding pharmacies generally may be curtailed or delayed; and

- we may not be able to enter into licensing or other arrangements with third-party pharmacies or outsourcing facilities when desired, on acceptable terms or at all.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We have raised over $35,000 in funds through equity and debt financings since January 2015. We may seek to obtain additional capital through equity or debt financings, funding from corporate partnerships or licensing arrangements, sales of assets or other financing transactions. If we issue additional equity or convertible debt securities to raise funds, our existing stockholders may experience substantial dilution, and the newly issued equity or debt securities may have more favorable terms or rights, preferences and privileges senior to those of our existing stockholders. If we raise additional funds through collaboration and licensing arrangements or sales of assets, we may have to relinquish potentially valuable rights to our product candidates or proprietary technologies, or grant licenses on terms that are not favorable to us. If we raise funds by incurring additional debt, we may be required to pay significant interest expenses and our leverage relative to our earnings or to our equity capitalization may increase. Obtaining commercial loans, assuming those loans would be available, would increase our liabilities and future cash commitments and may impose restrictions on our activities, such as the financial and operating covenants included in our loan agreement and convertible note with LSAF. Further, we may incur substantial costs in pursuing future capital and/or financing transactions, including investment banking fees, legal fees, accounting fees, printing and distribution expenses and other costs. We may also be required to recognize non-cash expenses in connection with certain securities we may issue, such as options, convertible notes and warrants, which would adversely impact our financial results.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We are dependent on our Chief Executive Officer, Mark L. Baum, for the continued growth and development of our Company.

Our Chief Executive Officer, Mark L. Baum, has played a primary role in creating and developing our current business model. Further, Mr. Baum has played a primary role in securing much of our material intellectual property rights and related assets, as well as the means to make and distribute our current products. We are highly dependent on Mr. Baum for the implementation of our business plan and the future development of our assets and our business, and the loss of Mr. Baum's services and leadership would likely materially adversely impact our Company. We presently maintain key man insurance for Mr. Baum.

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 March 20, 2017, approximately 12% of our common stock that would be outstanding following such issuances. These persons, acting together, have the ability to exercise significant influence over or control the outcome of all matters submitted to our stockholders for approval, including the election and removal of directors and any significant transaction involving us, and to control our management and affairs. Additionally, since our Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws permit our stockholders to act by written consent, a limited number of stockholders may approve stockholder actions without holding a meeting of stockholders. This concentration of ownership may harm the market price of our common stock by, among other things: delaying, deferring, or preventing a change in control of our Company or changes to our board of directors; impeding a merger, consolidation, takeover or other business combination involving our Company; causing us to enter into transactions or agreements that are not in the best interests of all stockholders; or discouraging a potential acquiror from making a tender offer or otherwise attempting to obtain control of our Company.

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

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

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

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

Our stock price may be volatile.

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

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We lease approximately 7,600 square feet of office space in San Diego, California, the current lease term for which expires on October 31, 2018. This facility serves as our corporate headquarters.

We lease approximately 8,600 square feet of lab, warehouse and office space in Ledgewood, New Jersey, the current lease term for which expires on July 31, 2022 and includes options to extend the lease term through 2032. This facility is serves as an outsourcing facility and pharmacy.

We lease approximately 4,500 square feet of lab and office space in Irvine, California, the current lease term for which expires on December 31, 2020. This facility is our California-based pharmacy.

We lease approximately 5,600 square feet of lab and office space in Folcroft, Pennsylvania, the current lease term for which expires on March 31, 2022. This facility is our Pennsylvania-based pharmacy.

We do not believe additional space will be required in the near-term.

ITEM 3. LEGAL PROCEEDINGS

We are not aware of any other 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 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock began trading on The NASDAQ Capital Market in February 2013. The following table sets forth the high and low sale prices for our common stock as reported by The NASDAQ Capital Market for the periods indicated.

Fiscal Year 2015	**High**	**Low**
First Quarter	$ 8.27	$ 6.84
Second Quarter	$ 8.59	$ 7.42
Third Quarter	$ 8.64	$ 6.19
Fourth Quarter	$ 8.78	$ 4.94

Fiscal Year 2016	**High**	**Low**
First Quarter	$ 6.94	$ 3.72
Second Quarter	$ 4.16	$ 3.50
Third Quarter	$ 4.45	$ 3.34
Fourth Quarter	$ 3.85	$ 1.65

Holders

As of March 15, 2017 there were approximately 261 stockholders of record (excluding an indeterminable number of stockholders whose shares are held in street or "nominee" name) of our common stock.

Dividends

We have not paid any dividends on our common stock since our inception and do not expect to pay dividends on our common stock in the foreseeable future. Further, our LSAF loan agreement, described in Notes 10 and 13 to our consolidated financial statements included in this Annual Report, restrict our ability to pay cash dividends on our common stock.

Recent Sales of Unregistered Securities

None.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. 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 the consolidated financial statements and the related notes contained in this annual report on Form 10-K (Annual Report). Our 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). In addition to historical information, the following discussion contains forward-looking statements based upon our current views, expectations and assumptions that are subject to risks and uncertainties. Actual results may differ substantially from those expressed or implied by any forward-looking statements due to a number of factors, including, among others, the risks described in the "Risk Factors" section and elsewhere in this Annual Report.

As used in this discussion and analysis, unless the context indicates otherwise, the terms the "Company", "Imprimis" "we", "us" and "our" refer to Imprimis Pharmaceuticals, Inc. and its consolidated subsidiaries, consisting of Pharmacy Creations, LLC (Pharmacy Creations), South Coast Specialty Compounding, Inc. d/b/a Park Compounding (Park), ImprimisRx TX, Inc. (ImprimisRx TX) and ImprimisRx PA, Inc. (ImprimisRx PA). In this discussion and analysis, we refer to our consolidated subsidiaries collectively as our "ImprimisRx compounding pharmacies."

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

Overview

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

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

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

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

We have incurred recurring operating losses and have had negative operating cash flows since July 24, 1998 (inception). In addition, we have an accumulated deficit of approximately $76,851 at December 31, 2016. Beginning on April 1, 2014, when we acquired our first ImprimisRx compounding pharmacy, we began generating revenue from sales of certain of our proprietary drug formulations and other non-proprietary formulations; however, we expect to incur further losses as we integrate and develop our pharmacy operations, evaluate other programs and continue the development of our formulations.

Operations

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

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

Ophthalmology

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

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

Dropless Therapy

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

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

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

LessDrops Combination Eye Drops

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

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

Glaucoma Eye Drops

During the second quarter of 2017, we intend to launch 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.

MKO Melt™ Conscious Sedation

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

Integrative Medicine

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

Urology

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

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

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

Other Markets and Development Programs

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

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

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

We have developed a patent-pending formulation that may be prescribed by physicians as a therapeutic alternative to an off-patent drug (name withheld for competitive reasons) that is prescribed for various indications mainly related to autoimmune diseases. The incumbent drug is known to present stability challenges, and we have stability and potency data on our formulation beyond 120 days. The incumbent drug has no generic competition and annual sales were over $1 billion in the U.S. during 2016. We are currently evaluating potential opportunities for this formulation including working on its development and commercialization with a strategic partner and/or developing our own clinical development program.

Customer Relationships

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

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

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

Compounding Facilities

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

In October 2016, we registered NJOF with the FDA as a Section 503B outsourcing facility. An outsourcing facility is an entity permitted to compound large quantities of certain drug formulations without a prescription and distribute them out of state without limitation. An outsourcing facility is required to comply with certain additional requirements that do not apply to compounding pharmacies, including adherence to current good manufacturing practices (cGMP). We estimate that our capital expenditures to build and equip the New Jersey facility were approximately $5,770, of which, we have paid approximately $5,680 as of December 31, 2016. We have also finalized improvements to our California based pharmacy. We have invested approximately $530 to make the improvements and added capacity to the pharmacy, of which we have paid approximately $403 as of December 31, 2016. We completed the improvement efforts at our California pharmacy in January 2017.

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

Factors Affecting Our Performance

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

Selection and Development of Formulations

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

Compounding Strategy

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

Reimbursement Options and Pricing Optimization

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

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

Sales and Marketing Efforts

Although we believe that our proprietary drug formulations could have commercial appeal in international markets and we have engaged distributors and entered into out-licensing arrangements for certain of our proprietary formulations in certain non-U.S. markets, including Canada, we expect to continue to focus our sales and marketing efforts on our U.S. commercial opportunities during 2017. Our sales and marketing efforts are currently organized into two teams, the larger of which focuses on our ophthalmology business and the other on our non-ophthalmology business. 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 2016 and 2017 to date that are important to understand our financial condition and results of operations. See the notes to our consolidated financial statements included in this report for additional information about each of these developments. Dollar amounts are expressed in thousands.

PIPE Equity Offering

In December 2016, we entered into a securities purchase agreement (the “SPA”) with certain purchasers identified on the schedule of buyers attached thereto (the “Investors”), which provided for the sale by us of 5,257,828 Units, with each Unit consisting of one share of common stock of the Company, (the “Common Stock”), and one warrant to purchase one share of Common Stock (the “Investor Warrants”), at a price of $1.915 per Unit for aggregate gross proceeds of approximately $10,100 (the “PIPE Offering”). The Investor Warrants have an exercise price of $1.79 per share, are non-exercisable for the first six months and will expire three years from the date of issuance. We closed the PIPE Offering on December 27, 2016 (the “Closing”). At Closing, we paid National Securities Corporation (the “Placement Agent”), in consideration for its services as placement agent for the PIPE Offering, a cash amount equal to 7.5% of the gross proceeds from the sale of the Units. We also issued to the Placement Agent a warrant (the “Agent Warrant”) to purchase up to 210,313 shares of Common Stock equal to 4% of the shares of Common Stock included in the Units (excluding the shares of Common Stock underlying the Investor Warrants) sold in the Offering. The Agent Warrant was issued on the same terms and conditions of the Investor Warrants.

In addition, we entered into a registration rights agreement (the “Registration Rights Agreement”) with the Investors pursuant to which we agreed to register for resale the shares of Common Stock and the shares of Common Stock underlying the Investor Warrants sold in the PIPE Offering. Under the terms of the Registration Statement, we committed to file the registration statement no later than 30 days after the Closing and to cause the registration statement to become effective no later than the earlier of (i) five business days after the SEC informs the Company that no review of the registration statement will be made or that the SEC has no further comments on the registration statement or (ii) 120 days after the Closing. We filed the Registration Statement on January 23, 2017 and it was declared effective on January 30, 2017. The Placement Agent received registration rights with respect to the shares of Common Stock underlying the Agent Warrant on the same terms and conditions as the Investors.

Debt Reorganization

In December 2016, we entered into a third amendment (the “Third Amendment”) to the Loan and Security Agreement dated May 11, 2015, and previously amended on October 20, 2015 and again on January 22, 2016, (the “Loan Agreement”) with IMMY Funding LLC, an affiliate of Life Sciences Alternative Funding LLC (the “Lender”), as lender and collateral agent. Concurrently with entering into and related to the Third Amendment, we and the Lender also entered into an Exchange and Discharge Agreement (the “Exchange Agreement”). The Third Amendment and Exchange Agreement, among other things, primarily allowed for us and the Lender to exchange a $3,000 principal balance convertible note dated January 22, 2016 issued by us to the Lender (the “Convertible Note”), for a $3,000 term loan (the “Term B Loan”). The Term B Loan was issued in exchange for, and not funded separately, cancellation and discharge of all indebtedness related to the Convertible Note. Terms, conditions and security interests of the Term B Loan are substantially equal to those of the Loan Agreement. The Third Amendment also amended certain terms and definitions associated with prepayment, payment schedule, amortization periods and defined the outstanding principal amounts due to the Lender under the Loan Agreement and Term B Loan (collectively, the “Note”), including any interest that has been paid in kind of the principal balance, in aggregate, as $13,332.

Under the amended terms we are permitted to pay interest only through May 2017, and the Note begins to amortize over twenty subsequent payment periods thereafter. The Note, plus a final fee of 5% of the aggregate principal amounts under the Loan Agreement will be due on the earlier of December 1, 2018 or 20 months after the end of the interest-only period. During 2016, our interest payment obligations relating to the Note and the Convertible Note totaled approximately $1,980.

The agreements governing the LSAF Loan and the Convertible Note include financial and operating covenants that impose restrictions on our certain of activities. The amounts owed under the LSAF Loan and the Convertible Note are secured by substantially all of our personal property, rights and assets, including our intellectual property rights.

Asset Impairment and Insurance Claim - Texas

In June 2016, our Texas based facility was damaged by a malfunction with the property's sprinkler system. We commenced restoration efforts and filed claims for damages under our insurance policies, including claims related to business interruption. In September 2016, we decided to cease operations at our Texas facility, and began winding down operations at that location. In November 2016, we were paid $861 from our insurance carrier related to the claims we filed for property damage and business interruption. We have transferred equipment and certain improvements in our Texas facility to our other facilities and all operations ceased completely near the end of 2016. As result of shutting the facility down, we incurred a charge of $303 related to the impairment of the intangible assets and goodwill of our Texas facility during the year ended December 31, 2016. 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.

Equipment Lease

In August 2016, we entered into an equipment sale-leaseback agreement (the "Lease Agreement") with Essex Capital Corporation ("Essex"). Pursuant to the terms of the Lease Agreement, we sold certain equipment (the "Equipment") to Essex for a total purchase price of approximately $2,000, which was leased back to us under a thirty-six (36) month term net basis lease with monthly payments of approximately $64. We have the right to purchase the Equipment from Essex upon the expiration of the Lease Agreement for a purchase price equal to the Equipment's then fair market value, with such fair market value not to exceed fifteen percent (15%) of the original Equipment cost. If the equipment is not purchased, we may automatically extend the lease on a month-to-month basis or return the equipment and terminate the Lease Agreement.

Public Equity Offerings

On March 16, 2016, we closed an underwritten public offering of 3,335,000 shares of our common stock at a per share price to the public of $3.60, and we received net proceeds of $11,088 after deducting the underwriter discount and other offering expenses. We used the net proceeds from the offering for working capital and general corporate purchases.

On November 27, 2015, we entered into a Controlled Equity Offering^{SM} sales agreement ("Sales Agreement") with Cantor Fitzgerald & Co., as agent ("Cantor Fitzgerald"), pursuant to which we 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 we have filed with the Securities and Exchange Commission. We have 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 and to reimburse Cantor Fitzgerald for certain fees and expenses in an amount not to exceed $50. We have sold 57,402 shares of common stock and received net proceeds of $212, after deducting sales commission and offering expenses, under the Sales Agreement during the year ended December 31, 2016, leaving an aggregate of $1,871 available for future sales of shares thereunder as March 20, 2017.

Convertible Note and Loan Agreement

On January 22, 2016, we received gross proceeds of $3,000 upon our issuance of an 8.00% Convertible Senior Secured Note in the principal amount of $3,000 ("Convertible Note") to the Lender. We were obligated to pay interest on the principal amount of the Convertible Note monthly in cash at a fixed per-annum rate of 8.00%, and we were obligated to repay the full principal amount of the Convertible Note in cash on May 11, 2021. The Convertible Note was convertible into shares of our common stock by the holder at any time at an effective conversion price of approximately $3.60, subject to adjustment upon certain events. The Convertible Note was exchanged in December 2016, as described in more detail above under the subtitle *Debt Reorganization*.

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.

Comparison of Years Ended December 31, 2016 and 2015

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 years ended December 31, 2016 and 2015:

	For The Year Ended December 31,		$
	2016	2015	Variance
Sales, net	$ 19,927	$ 9,654	$ 10,273
License revenues	15	62	(47)
Total revenues	$ 19,942	$ 9,716	$ 10,226

The increase in revenue between periods was largely attributable to increased sales of our proprietary formulations and introduction of new proprietary formulations throughout calendar 2015 and furtherance of those sales in 2016, including our LessDrops formulations. Our ophthalmology related sales were approximately $10,984 the year ended December 31, 2016, compared to $3,060 during last year, respectively.

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 years ended December 31, 2016 and 2015:

	For The Year Ended December 31,		$
	2016	2015	Variance
Cost of sales	$ 9,831	$ 5,206	$ 4,625

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. During the third quarter of 2016 due to the property damage at our Texas facility, we hired temporary staff to assist with the order fulfillment that was shifted to our California and New Jersey pharmacies. The costs associated with the temporary staff and limited production efficiencies contributed to the increase in cost of sales during the year ended December 31, 2016.

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 years ended December 31, 2016 and 2015:

	For The Year Ended December 31,		$
	2016	2015	Variance
Selling and marketing	$ 7,382	$ 6,496	$ 1,886

The increase in selling and marketing expenses during the year ended December 31, 2016, was primarily attributable to the expansion of our sales and marketing efforts (in particular during the earlier part of the year), which included additional commercialization personnel, attendance at trade conferences and implementation of other various marketing activities, all related to our commercialization efforts for our proprietary and certain non-proprietary compounded formulations.

General and Administrative Expenses

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

The following presents our general and administrative expenses for the year ended December 31, 2016 and 2015:

	For The Year Ended December 31,		$
	2016	2015	Variance
General and administrative	$ 17,569	$ 12,504	$ 5,065

The increase in general and administrative expenses between periods was largely attributable to additional expenses resulting from the opening and acquisition of additional compounding facilities, as well as the general increase of our operations to support growth in sales, including hiring additional personnel, obtaining and maintaining state pharmacy licenses, incurring increased professional fees and other related activities. We also incurred additional expenses related to the cessation of our Texas entity during the year ended December 31, 2016.

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 years ended December 31, 2016 and 2015:

	For The Year Ended December 31,		$
	2016	2015	Variance
Research and development	$ 739	$ 332	$ 407

The variance in research and development expenses between periods was primarily attributable to change in timing of our sponsorship of investigator-initiated evaluations related to certain of our proprietary compounded formulations. In the fourth quarter of the year ended December 31, 2016, we also began formulation development studies on many of our core formulations.

Impairment of Intangible Assets and Goodwill

As more fully described in Note 2 to the Consolidated Financial Statements, the Company performs an evaluation of long-lived assets and intangible assets for impairment when certain indicators of impairment are present. In September 2016, we decided to cease operations at our Texas facility, and began winding down operations at that location. Based on current projections regarding future cash flows of our Texas facility and subsidiary, the evaluation resulted in an impairment of $303 related to intangible assets and goodwill of our Texas subsidiary, recorded to impairment of long-lived assets on the Consolidated Statement of Operations during the year ended December 31, 2016.

Interest Income

Interest income was $10 for the year ended December 31, 2016, compared to $5 in the prior year.

Interest Expense

Interest expense was $2,784 for the year ended December 31, 2016, compared to $1,113 in the prior year. The increase was primarily due to interest expense recognition related to the LSAF Loan and Convertible Note, as well as capital leases and deferred acquisition obligations related to our acquisition of Park.

Debt Extinguishment

Debt extinguishment was $1,966 for the year ended December 31, 2016, which was related to the exchange and discharge of our $3,000 convertible note with IMMY Funding, LLC.

Income Tax Benefit

Income tax benefit was $111 for the year ended December 31, 2016, which was related to the net valuation change in our deferred tax liabilities and assets, specifically those related to the Park acquisition and its identifiable intangible assets.

Other Income

We recorded other income of $1,537 during the year ended December 31, 2016, related to proceeds from our insurance claim in Texas, settlement with Urigen Pharmaceuticals, Inc. In May 2016, we paid the contingent acquisition obligation for Pharmacy Creations, LLC and recorded a gain of $81 during the year ended December 31, 2016, respectively.

Net Loss

Net loss for the year ended December 31, 2016 was $(19,087), or $(1.50) basic and diluted net loss per share, respectively, compared to a net loss for the prior year of $(15,899), or $(1.66), basic and diluted net loss per share, respectively.

Liquidity and Capital Resources

Liquidity

Our cash on hand at December 31, 2016 was $8,853, compared to $2,685 at December 31, 2015. The increase in cash on hand between years was primarily attributable to our underwritten public offering in 2016 of 3,335,000 shares of our common stock at a per share price to the public of $3.60, in which we received net proceeds of $11,088 after deducting the underwriter discount and other offering expenses, and our private placement offering in 2016 of 5,257,828 Units, with each Unit consisting of one share of common stock and one warrant to purchase one share of common stock, at a per unit price of $1.915, in which we received net proceeds of $9,217 after deducting placement agent fees and other offering expenses. Since inception through December 31, 2016, we have incurred aggregate losses to common stockholders of $(76,851). 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 Annual Report, we believe that cash and cash equivalents and restricted investments of approximately $9,053 at December 31, 2016, will be sufficient to sustain our planned level of operations and capital expenditures for at least the next 12 months. However, our plans for this period may change, our estimates of our operating expenses, capital expenditures and working capital requirements could be inaccurate, we may pursue acquisitions of pharmacies or other strategic transactions that involve large expenditures or we may experience growth more quickly or on a larger scale than we expect, any of which could result in the depletion of capital resources more rapidly than anticipated and could require us to seek additional financing earlier than we expect to support our operations.

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

We intend to leverage recent investments made to our New Jersey facility, including new production processes and filling and labeling automation, to offset previously planned production in Texas. We also have made recent company-wide improvements in technology integration, production automation, quality systems and other supply chain efficiencies. These actions are expected to streamline our operations and reduce expected cash based expenses by nearly $3,000 annually without impacting our growth plans.

Net Cash Flow

The following provides detailed information about our net cash flows for the years ended December 31, 2016 and 2015:

	For the Year Ended December 31, 2016	For the Year Ended December 31, 2015
Net cash used in operating activities	$ (11,215)	$ (11,143)
Net cash used in investing activities	(7,289)	(5,130)
Net cash provided by (used in) financing activities	24,672	10,747
Net change in cash and cash equivalents	6,168	(5,526)
Cash and cash equivalents at beginning of the period	2,685	8,211
Cash and cash equivalents at end of the year	$ 8,853	$ 2,685

Operating Activities

Net cash used in operating activities for the year ended December 31, 2016 was $(11,215), as compared to $(11,143) used in operating activities during 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 for the year ended December 31, 2016 and 2015 was $(7,289) and $(5,130), respectively. Cash used in investing activities in 2016 was primarily related to construction efforts and equipment purchases for our New Jersey, California and Texas facilities. Cash used in investing activities in 2015 was primarily related the beginning construction efforts for our New Jersey facility and our acquisitions of Park, CAP and assets of ImprimisRx PA.

Financing Activities

Net cash provided by financing activities for the year ended December 31, 2016 and 2015 was $24,672 and $10,747, respectively. 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 private placement offering in December 2016. The cash provided by financing activities during the year ended December 31, 2015 is primarily attributable to proceeds from the LSAF Loan entered in May 2015, and the proceeds received from cash exercises of warrants.

Sources of Capital

Our principal sources of cash consist of cash provided by financing activities, including: (a) gross proceeds of $3,000 received in January 2016 from the Convertible Note issuance; (b) net proceeds of $11,088 from our sale of 3,335,000 shares of common stock in our March 2016 public offering; (c) gross proceeds of $2,000 from our sale and leaseback of certain equipment in August 2016; and (d) net proceeds of $9,217 from the private placement offering of 5,257,828 Units in December 2016. We also obtained capital from insurance proceeds related to business interruption and property loss of our Texas facility of $861 in November 2016 and from ongoing product and formulation sales. We do not currently receive sufficient revenues to support our operations.

We may need significant additional capital to support our business plan and fund our proposed business operations. We are eligible to receive $1,871 in additional gross proceeds from future sales of our common stock under 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 LSAF Loan and the LSAF Note. Further, we may incur substantial costs in pursuing future capital and/or financing transactions, including investment banking fees, legal fees, accounting fees, printing and distribution expenses and other costs. We may also be required to recognize non-cash expenses in connection with certain securities we may issue, such as convertible notes and warrants, which would adversely impact our financial results.

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

Critical Accounting Policies

We rely on the use of estimates and make assumptions that impact our financial condition and results. These estimates and assumptions are based on historical results and trends as well as our forecasts of how results and trends might change in the future. Although we believe that the estimates we use are reasonable, actual results could differ materially from these estimates.

We believe that the accounting policies described below are critical to understanding our business, results of operations and financial condition because they involve the use of more significant judgments and estimates in the preparation of our consolidated financial statements. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and any changes in the assumptions used in making the accounting estimates that are reasonably likely to occur could materially impact our consolidated financial statements.

Revenue Recognition

We 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.

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. We will defer any revenues received for a product that has not been delivered or is subject to refund until such time that we 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 us and require no consequential continuing involvement on our part 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. 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 and that are separate and independent of our performance under the other elements of the arrangement. In addition, if our continued involvement is required, 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 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.

Stock-Based Compensation

All stock-based payments to employees, directors and consultants, including grants of stock options, warrants, restricted stock units and restricted stock, are recognized in the consolidated financial statements based upon their estimated fair values. We use the Black-Scholes-Merton option pricing model and Monte Carlo Simulation to estimate the fair value of stock-based awards. 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.

Our accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows the Financial Accounting Standards Board (FASB) guidance. As such, the value of the applicable stock-based compensation is periodically remeasured and income or expense is recognized during the vesting term of the equity instruments. The measurement date for the fair value of the equity instruments issued is 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. According to 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, we record the fair value of nonforfeitable equity instruments issued for future consulting services as prepaid stock-based consulting expenses in our consolidated balance sheets.

Income Taxes

As part of the process of preparing our consolidated financial statements, we must estimate our actual current tax liabilities and assess temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the balance sheet. We must assess the likelihood that the deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, a valuation allowance must be established. To the extent we establish a valuation allowance or increase or decrease this allowance in a period, the impact will be included in income tax expense in the statement of operations.

Research and Development

We expense 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, 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 we have not identified an alternative future use for the acquired rights, and are capitalized in situations where we have identified an alternative future use for the acquired rights. Patents and trademarks are recorded at cost and capitalized at a time when the future economic benefits of such patents and trademarks become more certain (see Goodwill and Intangible Assets). We began capitalizing certain costs associated with acquiring intellectual property rights during 2015, if costs are not capitalized they are expensed as incurred.

Impairment of Long-Lived Assets

Long-lived assets, such as furniture and equipment, purchased intangibles subject to amortization and patents and trademarks, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed would be separately presented in the consolidated balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held-for-sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheet, if material.

Business Combinations

We account for business combinations by recognizing the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair values on the acquisition date. The purchase price allocation process requires management to make significant estimates and assumptions, especially with respect to intangible assets, estimated contingent consideration payments and pre-acquisition contingencies. Examples of critical estimates in valuing certain of the intangible assets we have acquired or may acquire in the future include but are not limited to:

- future expected cash flows from product sales, support agreements, consulting contracts, other customer contracts, and acquired developed technologies and patents; and

- discount rates utilized in valuation estimates.

Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates or actual results. Additionally, any change in the fair value of the acquisition-related contingent consideration subsequent to the acquisition date, including changes from events after the acquisition date, such as changes in our estimates of relevant revenue or other targets, will be recognized in earnings in the period of the estimated fair value change. A change in fair value of the acquisition-related contingent consideration or the occurrence of events that cause results to differ from our estimates or assumptions could have a material effect on the consolidated financial position, statements of operations or cash flows in the period of the change in the estimate.

Goodwill and Intangible Assets

Patents and trademarks are recorded at cost and capitalized at a time when the future economic benefits of such patents and trademarks become more certain. At that time, we capitalize third party legal costs and filing fees associated with obtaining and prosecuting claims related to its patents and trademarks. Once the patents have been issued, we amortize these costs over the shorter of the legal life of the patent or its estimated economic life, generally 20 years, using the straight-line method. Trademarks are an indefinite life intangible asset and are assessed for impairment based on future projected cash flows as further described below.

We review our goodwill and indefinite-lived intangible assets for impairment as of January 1 of each year and when an event or a change in circumstances indicates the fair value of a reporting unit may be below its carrying amount. Events or changes in circumstances considered as impairment indicators include but are not limited to the following:

- significant underperformance of the our business relative to expected operating results;

- significant adverse economic and industry trends;

- significant decline in the our market capitalization for an extended period of time relative to net book value; and

- expectations that a reporting unit will be sold or otherwise disposed.

The goodwill impairment test consists of a two-step process as follows:

Step 1. We compare the fair value of each reporting unit to its carrying amount, including the existing goodwill. The fair value of each reporting unit is determined using a discounted cash flow valuation analysis. The carrying amount of each reporting unit is determined by specifically identifying and allocating the assets and liabilities to each reporting unit based on headcount, relative revenues or other methods as deemed appropriate by management. If the carrying amount of a reporting unit exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and we then perform the second step of the impairment test. If the fair value of a reporting unit exceeds its carrying amount, no further analysis is required.

Step 2. If further analysis is required, we compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets and its liabilities in a manner similar to a purchase price allocation, to its carrying amount. If the carrying amount of the reporting unit's goodwill exceeds its fair value, an impairment loss will be recognized in an amount equal to the excess.

Debt Issuance Costs and Debt Discount

Debt issuance costs and the debt discount are recorded net of note payable in the consolidated balance sheet. Amortization expense of debt issuance costs and the debt discount is calculated using the effective interest method over the term of the debt and is recorded in interest expense in the accompanying consolidated statement of operations.

Derivative Instruments

We account for free-standing derivative instruments and hybrid instruments that contain embedded derivative features as either assets or liabilities in the balance sheet and are measured at fair values with gains or losses recognized in earnings. Embedded derivatives that are not clearly and closely related to the host contract are bifurcated and are recognized at fair value with changes in fair value recognized as either a gain or loss in earnings. We determine the fair value of derivative instruments and hybrid instruments based on available market data using appropriate valuation models, giving consideration to all of the rights and obligations of each instrument.

We estimate the fair value of derivative instruments and hybrid instruments using various techniques (and combinations thereof) that are considered to be consistent with the objective of measuring fair value. In selecting the appropriate technique, we consider, among other factors, the nature of the instrument, the market risks that it embodies and the expected means of settlement. We generally use the Black-Scholes-Merton option pricing model, adjusted for the effect of dilution, because it embodies all of the requisite assumptions (including trading volatility, estimated terms, dilution and risk-free rates) necessary to estimate the fair value these instruments. Estimating the fair value of derivative financial instruments requires the development of significant and subjective estimates that may, and are likely to, change over the duration of the instrument with related changes in internal and external market factors. Increases in the trading price of our common stock and increases in fair value during a given financial quarter result in the application of non-cash derivative expense. Conversely, decreases in the trading price of our common stock and decreases in fair value during a given financial quarter would result in the application of non-cash derivative income.

Recently Adopted and Recently Issued Accounting Pronouncements

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

Off-Balance Sheet Arrangements

Since our inception, except for standard operating leases, we have not engaged in any off-balance sheet arrangements, including the use of structured finance, special purpose entities or variable interest entities. We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to stockholders.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data required by this item are included in this Annual Report beginning on page F-1 immediately following the signature page hereto and are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer (CEO), our principal executive officer, and our Chief Financial Officer (CFO), our principal financial and accounting officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2016, the end of the period covered by this Annual Report, pursuant to Rules 13a-15(b) and 15d-15(b) under the Securities Exchange Act of 1934, as amended (Exchange Act).

In connection with that evaluation, our CEO and CFO concluded that, as of December 31, 2016, our disclosure controls and procedures were effective. For the purpose of this review, disclosure controls and procedures means controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our principal executive officer, principal financial officer and principal accounting officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed by, or under the supervision of, our CEO and CFO and effected by our board of directors, management and other personnel, 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. Our management, under the supervision and with the participation of our CEO and CFO, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations (COSO). Based on such evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2016.

This Annual Report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation requirements by our independent registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only management's report in this Annual Report.

Changes in Internal Control 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 December 31, 2016, that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our CEO and CFO, do not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated by reference to information contained in the Proxy Statement or an amendment to this Annual Report, in either case to be filed with the Securities and Exchange Commission on or before the 120th day after the end of the fiscal year covered by this Annual Report.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to information contained in the Proxy Statement or an amendment to this Annual Report, in either case to be filed with the Securities and Exchange Commission on or before the 120th day after the end of the fiscal year covered by this Annual Report.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference to information contained in the Proxy Statement or an amendment to this Annual Report, in either case to be filed with the Securities and Exchange Commission on or before the 120th day after the end of the fiscal year covered by this Annual Report.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to information contained in the Proxy Statement or an amendment to this Annual Report, in either case to be filed with the Securities and Exchange Commission on or before the 120th day after the end of the fiscal year covered by this Annual Report.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference to information contained in the Proxy Statement or an amendment to this Annual Report, in either case to be filed with the Securities and Exchange Commission on or before the 120th day after the end of the fiscal year covered by this Annual Report.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) List of the following documents filed as part of the report:

(1) See the index to our consolidated financial statements on page F-1 for a list of the financial statements being filed in this Annual Report.

(2) All financial statement schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or the notes thereto.

(3) See Item 15(b) below for all exhibits being filed or incorporated by reference herein.

(b) Exhibits:

The Exhibit Index attached to this Annual Report is incorporated by reference herein.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: */s/ Mark L. Baum*
Name: Mark L. Baum
Title: Chief Executive Officer (Principal Executive Officer)

Date: March 21, 2017

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Mark L. Baum and Andrew R. Boll, and each of them individually, as his true and lawful attorneys-in-fact and agents with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities to any or all amendments to this Annual Report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents or any of them the full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the foregoing, as full to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or his substitutes, may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Andrew R. Boll Andrew R. Boll	Chief Financial Officer *(Principal Accounting and Financial Officer)*	March 21, 2017
/s/ Mark L. Baum Mark L. Baum	Chief Executive Officer and Director (*Principal Executive Officer*)	March 21, 2017
/s/ Robert J. Kammer Robert J. Kammer	Chairman of the Board of Directors	March 21, 2017
/s/ Stephen G. Austin Stephen G. Austin	Director	March 21, 2017
/s/ Richard L. Lindstrom Richard L. Lindstrom	Director	March 21, 2017
/s/ Anthony J. Principi Anthony J. Principi	Director	March 21, 2017

FINANCIAL STATEMENTS

Imprimis Pharmaceuticals, Inc.

Index to Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Imprimis Pharmaceuticals, Inc.

We have audited the accompanying consolidated balance sheets of Imprimis Pharmaceuticals, Inc. and subsidiaries (the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the two years in the period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit on its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Imprimis Pharmaceuticals, Inc. and subsidiaries as of December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

/s/ KMJ Corbin & Company LLP

Costa Mesa, California
March 21, 2017

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

	December 31, 2016	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	$ 8,853	$ 2,685
Restricted cash and short-term investments	200	150
Accounts receivable, net	2,921	840
Inventories	1,841	1,412
Prepaid expenses and other current assets	938	786
Total current assets	14,753	5,873
Property, plant and equipment, net	7,295	2,657
Intangible assets, net	2,972	3,135
Goodwill	2,227	2,466
TOTAL ASSETS	$ 27,247	$ 14,131
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Accounts payable and accrued expenses	$ 3,538	$ 3,407
Accrued payroll and related liabilities	1,638	1,200
Deferred revenue and customer deposits	91	65
Current portion of deferred acquisition obligation and accrued interest	207	198
Current portion of contingent acquisition obligation	-	483
Current portion of note payable, net of unamortized debt discount	3,973	-
Current portion of capital lease obligations, net of unamortized discount	458	21
Total current liabilities	9,905	5,374
Capital lease obligations, net of current portion and unamortized discount	1,318	1
Deferred acquisition obligation, net of current portion	52	258
Accrued expenses, net of current portion	667	500
Deferred tax liability	936	1,047
Note payable and paid-in-kind interest, net of unamortized debt discount and current portion	7,937	8,336
TOTAL LIABILITIES	20,815	15,516
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock, $0.001 par value, 90,000,000 shares authorized, 18,627,915 and 9,755,678 shares issued and outstanding at December 31, 2016 and 2015, respectively	19	10
Additional paid-in capital	83,264	56,369
Accumulated deficit	(76,851)	(57,764)
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	6,432	(1,385)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 27,247	$ 14,131

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

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

	For the Year Ended December 31, 2016	For the Year Ended December 31, 2015
Revenues:		
Sales, net	$ 19,927	$ 9,654
License revenues	15	62
Total revenues	19,942	9,716
Cost of sales	(9,831)	(5,206)
Gross profit	10,111	4,510
Operating expenses:		
Selling and marketing	7,382	6,496
General and administrative	17,569	12,504
Research and development	739	332
Impairment of long-lived assets	303	-
Total operating expenses	25,993	19,332
Loss from operations	(15,882)	(14,822)
Other income (expense):		
Interest expense, net	(2,774)	(1,108)
Early extinguishment of debt	(1,966)	-
Change in fair value of derivative liabilities	(113)	-
Other income, net	1,537	31
Income tax benefit (provision)	111	-
Total other expense, net	(3,205)	(1,077)
Net loss	$ (19,087)	$ (15,899)
Basic and diluted net loss per share of common stock	$ (1.50)	$ (1.66)
Weighted average number of shares of common stock outstanding, basic and diluted	12,743,184	9,576,142

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

IMPRIMIS PHARMACEUTICALS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
For the years ended December 31, 2016 and 2015
(In thousands, except for share data)

	Common Stock		Additional		Total Stockholders'
	Shares	Par Value	Paid-in Capital	Accumulated Deficit	Equity (Deficit)
Balance at December 31, 2014	9,258,231	$ 9	$ 50,006	$ (41,865)	$ 8,150
Issuance of common stock in connection with:					
Exercise of stock options	130,457	-	-	-	-
Vesting of RSUs, net of tax withholding	10,132	-	(10)	-	(10)
Sale of stock, net of offering costs (ATM)	72,421	-	404	-	404
Exercise of warrants	220,912	1	1,247	-	1,248
The Park Acquisition	63,525	-	425	-	425
Relative fair value of warrants to purchase common stock issued in connection with note payable	-	-	840	-	840
Stock-based compensation expense	-	-	3,457	-	3,457
Net loss	-	-	-	(15,899)	(15,899)
Balance at December 31, 2015	9,755,678	10	56,369	(57,764)	(1,385)
Issuance of common stock in connection with:					
Exercise of stock options	15,000	-	55	-	55
Vesting of RSUs, net of tax withholding	132,367	1	(144)	-	(143)
Registered public offering sale of stock, net of offering costs, March 2016	3,335,000	3	11,085	-	11,088
Sale of stock, net of costs (ATM)	57,042	-	212	-	212
Private placement, issuance of stock and warrants at $1.915 per unit, net of costs, in December 2016	5,257,828	5	9,212	-	9,217
Stock-based payment for deferred acquisition obligation	75,000	-	302	-	302
Derivative liabilities in connection with convertible note and modification of warrants to purchase common stock issued in connection with note payable	-	-	2,362	-	2,362
Stock-based compensation expense	-	-	3,811	-	3,811
Net loss	-	-	-	(19,087)	(19,087)
Balance at December 31, 2016	18,627,915	$ 19	$ 83,264	$ (76,851)	$ 6,432

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

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

	For the Year Ended December 31, 2016	For the Year Ended December 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (19,087)	$ (15,899)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of furniture and equipment	1,055	255
Amortization of intangible assets	351	355
Amortization of deferred tax liability	(111)	-
Amortization of debt issuance costs and discount	970	281
Debt extinguishment	1,966	-
Paid-in-kind interest added to principal of note payable	203	130
Non-cash gain on contingent acquisition obligations	(83)	(31)
Change in fair value of derivative liabilities	113	-
Impairment of long-lived assets	303	-
Stock-based compensation	3,673	3,441
Issuance of warrant related to litigation settlement	115	-
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(2,081)	(360)
Inventories	(429)	(314)
Prepaid expenses and other current assets	(152)	(545)
Accounts payable and accrued expenses	1,515	1,028
Accrued payroll and related liabilities	438	453
Deferred revenue and customer deposits	26	63
NET CASH USED IN OPERATING ACTIVITIES	(11,215)	(11,143)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Park Compounding, net of cash	-	(3,005)
Purchase of Central Allen Pharmacy, net of cash	-	(421)
Purchase of assets for ImprimisRx PA, Inc.	-	(524)
Payments on Pharmacy Creations contingent acquisition obligation	(100)	-
Investment in restricted smarketable securities	(50)	-
Investment in patent and trademark assets	(252)	(185)
Purchases of property, plant and equipment	(6,887)	(995)
NET CASH USED IN INVESTING ACTIVITIES	(7,289)	(5,130)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligations	(267)	(25)
Net proceeds from public equity offering	11,088	-
Net proceeds from private placement equity offering	9,217	-
Payments on Park deferred acquisition obligation	(195)	(135)
Proceeds from note payable, net of issuance costs	-	9,265
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	212	404
Net proceeds from exercise of warrants and stock options, net of taxes remitted for RSU's	(88)	1,238
NET CASH PROVIDED BY FINANCING ACTIVITIES	24,672	10,747
NET CHANGE IN CASH AND CASH EQUIVALENTS	6,168	(5,526)
CASH AND CASH EQUIVALENTS, beginning of period	2,685	8,211
CASH AND CASH EQUIVALENTS, end of period	$ 8,853	$ 2,685
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	$ 9	$ 1
Cash paid for interest	$ 1,366	$ 637
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES (in thousands):		
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	$ -
Reduction in value of warrant in connection with debt extinguishment	$ 73	$ -
Issuance of common stock and fair value of deferred acquisition obligations related to the purchase of Park Compounding	$ -	$ 1,016
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	$ 39

Final fee on notes payable recorded as debt discount and included in accrued expenses	$ -	$ 500
Estimated relative fair value of warrants issued in connection with note payable	$ -	$ 840
Purchase of property, plant and equipment included in accounts payable and accrued expenses	$ 81	$ 1,275

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

NOTE 1. ORGANIZATION

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

On April 1, 2014, the Company acquired Pharmacy Creations, LLC ("PC"), a New Jersey based compounding pharmacy and on January 1, 2015, the Company acquired South Coast Specialty Compounding, Inc. D/B/A Park Compounding ("Park"), a California based compounding pharmacy. Effective with the acquisition of PC, the Company commenced sales and marketing efforts for Imprimis' portfolio of proprietary and non-proprietary compounded drug formulations. On August 4, 2015, the Company acquired JT Pharmacy, Inc. d/b/a Central Allen Pharmacy ("CAP"), a Texas based compounding pharmacy whose name has been changed to ImprimisRx TX, Inc. (See Note 18), and on October 15, 2015, the Company, through a wholly-owned subsidiary ImprimisRx PA, Inc. ("ImprimisRx PA"), acquired substantially all of the assets and tradenames of Thousand Oaks Holding Company's wholly-owned subsidiaries Topical Apothecary Group, LLC (d/b/a TAG Pharmacy), Aerosol Science Laboratories, Inc. (d/b/a ASL Pharmacy), SinuTopic, Inc. (d/b/a Sinus Dynamics Pharmacy) and Mycotoxins, LLC (collectively "TOHC").

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Imprimis has prepared the accompanying consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

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 and 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, allowance for doubtful accounts and contractual adjustments, realizability of inventories, valuation of deferred taxes, goodwill and intangible assets, recoverability of long-lived assets and goodwill, valuation of contingent acquisition obligations and deferred acquisition obligations, valuation of notes payable and derivative liabilities, and valuation of stock-based transactions with employees and non-employees. Actual results could differ from those estimates.

Liquidity

The Company has incurred significant operating losses and negative cash flows from operations since its inception. The Company incurred net losses of $19,087 and $15,899 for the years ended December 31, 2016 and 2015, respectively, and had an accumulated deficit of $76,851 and $57,764 as of December 31, 2016 and 2015, respectively. In addition, the Company used cash in operating activities of $11,215 and $11,143 for the years ended December 31, 2016 and 2015, respectively.

While there is no assurance, the Company believes its existing cash resources and restricted cash of approximately $9,053 at December 31, 2016, will be sufficient to sustain the Company's planned level of operations for at least the next twelve months. However, estimates of operating expenses and working capital requirements could be incorrect, and the Company could use its cash resources faster than anticipated. Further, some or all of the ongoing or planned activities may not be successful and could result in further losses.

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

Revenue Recognition and Deferred Revenue

The Company recognizes revenues when all of the following criteria have been met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured.

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.

Cost of Sales

Cost of sales includes direct and indirect costs to manufacture formulations and other products sold, including active pharmaceutical ingredients, personnel costs, packaging, storage, royalties (see Note 16), shipping and handling costs and the write-off of obsolete inventory.

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, other overhead expenses, and costs related to clinical trials, contract services and outsourced contracts.

Debt Issuance Costs and Debt Discount

Debt issuance costs and the debt discount are recorded net of notes payable and capital lease obligations in the consolidated balance sheets. Amortization expense of debt issuance costs and the debt discount is calculated using the effective interest method over the term of the debt and is recorded in interest expense in the accompanying consolidated statements of operations.

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 we have identified an alternative future use for the acquired rights. Patents and trademarks are recorded at cost and capitalized at a time when the future economic benefits of such patents and trademarks become more certain (see Goodwill and Intangible Assets). The Company began capitalizing certain costs associated with acquiring intellectual property rights during 2015, if costs are not capitalized they are expensed as incurred.

Income Taxes

As part of the process of preparing the Company's consolidated financial statements, the Company must estimate the actual current tax liabilities and assess temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the balance sheet. The Company must assess the likelihood that the deferred tax assets will be recovered from future taxable income and, to the extent the Company believes that recovery is not likely, a valuation allowance must be established. To the extent the Company establishes a valuation allowance or increase or decrease this allowance in a period, the impact will be included in income tax expense in the consolidated statement of operations.

The Company accounts for income taxes under the provisions of Financial Accounting Standards Board (the "FASB") Accounting Standards Codification ("ASC") 740, "Income Taxes", or ASC 740. As of December 31, 2016 and 2015, there were no unrecognized tax benefits included in the 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 consolidated balance sheets at December 31, 2016 and 2015, and has not recognized interest and/or penalties in the consolidated statements of operations for the years ended December 31, 2016 and 2015. The Company is subject to taxation in the United States, California, New Jersey, Texas and Pennsylvania. The Company's tax years since 2000 are subject to examination by the federal and state tax authorities due to the carryforward 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 up to $250 per owner. At December 31, 2016, the Company had approximately $8,800 in cash deposits in excess of FDIC limits.

Accounts Receivable

Accounts receivable are stated net of allowances for doubtful accounts and contractual adjustments. The accounts receivable balance primarily includes amounts due from customers the Company has invoiced or from third-party providers (e.g., insurance companies and governmental agencies), but for which payment has not been received. Charges to bad debt are based on both historical write-offs and specifically identified receivables. Contractual adjustments are determined by the amount expected to be collected from third-party providers. Accounts receivable are presented net of allowances for doubtful accounts and contractual adjustments in the amount of $422 and $180 as of December 31, 2016 and 2015, respectively.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis. The Company evaluates the carrying value of inventories on a regular basis, based on the price expected to be obtained for products in their respective markets compared with historical cost. Write-downs of inventories are considered to be permanent reductions in the cost basis of inventories.

The Company also regularly evaluates its inventories for excess quantities and obsolescence (expiration), taking into account such factors as historical and anticipated future sales or use in production compared to quantities on hand and the remaining shelf life of products and active pharmaceutical ingredients on hand. The Company establishes reserves for excess and obsolete inventories as required based on its analyses.

Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation and amortization. Depreciation and amortization is calculated using the straight-line method over the estimated useful life of the asset. Leasehold improvements and capital lease equipment are amortized over the estimated useful life or remaining lease term, whichever is shorter. Computer software and hardware and furniture and equipment are depreciated over three to five years.

Business Combinations

The Company accounts for business combinations by recognizing the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair values on the acquisition date. The purchase price allocation process requires management to make significant estimates and assumptions, especially with respect to intangible assets, estimated contingent consideration payments and pre-acquisition contingencies. Examples of critical estimates in valuing certain of the intangible assets the Company has acquired or may acquire in the future include but are not limited to:

- future expected cash flows from product sales, support agreements, consulting contracts, other customer contracts, and acquired developed technologies and patents; and

- discount rates utilized in valuation estimates.

Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates or actual results. Additionally, any change in the fair value of the acquisition-related contingent consideration subsequent to the acquisition date, including changes from events after the acquisition date, such as changes in our estimates of relevant revenue or other targets, will be recognized in earnings in the period of the estimated fair value change. A change in fair value of the acquisition-related contingent consideration or the occurrence of events that cause results to differ from our estimates or assumptions could have a material effect on the consolidated financial position, statements of operations or cash flows in the period of the change in the estimate.

Goodwill and Intangible Assets

Patents and trademarks are recorded at cost and capitalized at a time when the future economic benefits of such patents and trademarks become more certain. At that time, the Company capitalizes third-party legal costs and filing fees associated with obtaining and prosecuting claims related to its patents and trademarks. Once the patents have been issued, the Company amortizes these costs over the shorter of the legal life of the patent or its estimated economic life, generally 20 years, using the straight-line method. Trademarks are an indefinite life intangible asset and are assessed for impairment based on future projected cash flows as further described below.

The Company reviews its goodwill and indefinite-lived intangible assets for impairment as of January 1 of each year and when an event or a change in circumstances indicates the fair value of a reporting unit may be below its carrying amount. Events or changes in circumstances considered as impairment indicators include but are not limited to the following:

- significant underperformance of the Company’s business relative to expected operating results;

- significant adverse economic and industry trends;

- significant decline in the Company’s market capitalization for an extended period of time relative to net book value; and

- expectations that a reporting unit will be sold or otherwise disposed.

The goodwill impairment test consists of a two-step process as follows:

Step 1. The Company compares the fair value of each reporting unit to its carrying amount, including the existing goodwill. The fair value of each reporting unit is determined using a discounted cash flow valuation analysis. The carrying amount of each reporting unit is determined by specifically identifying and allocating the assets and liabilities to each reporting unit based on headcount, relative revenues or other methods as deemed appropriate by management. If the carrying amount of a reporting unit exceeds its fair value, an indication exists that the reporting unit’s goodwill may be impaired and the Company then performs the second step of the impairment test. If the fair value of a reporting unit exceeds its carrying amount, no further analysis is required.

Step 2. If further analysis is required, the Company compares the implied fair value of the reporting unit’s goodwill, determined by allocating the reporting unit’s fair value to all of its assets and its liabilities in a manner similar to a purchase price allocation, to its carrying amount. If the carrying amount of the reporting unit’s goodwill exceeds its fair value, an impairment loss will be recognized in an amount equal to the excess.

Impairment of Long-Lived Assets

Long-lived assets, such as property, plant and equipment, purchased intangibles subject to amortization and patents and trademarks, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held-for-sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheet, if material.

In September 2016, the Company decided to cease operations at its Texas facility, and began winding down the operations. Based on current projections regarding future cash flows of the Texas facility and the related subsidiary, the evaluation resulted in an impairment of $64 related to intangible assets and $239 related to goodwill, recorded to impairment of long-lived assets on the consolidated statements of operations during the year ended December 31, 2016. During the year ended December 31, 2015, the Company did not recognize any impairment of its long-lived assets (See Note 18).

Third Party Billing and Collection Agreements

In connection with its acquisition of Park, the Company entered into a billing and collection agreement with a third party to assist in the billing and collection of workers' compensation claims. Under the terms of the agreement, the Company is obligated to pay a fixed fee to the third party equal to 55% of the amounts billed and collected under the workers' compensation claims. The Company accrues for such fees in accounts payable and accrued expenses in the accompanying consolidated balance sheets. Total billing and collection management expense under this agreement for the years ended December 31, 2016 and 2015 was $55 and $142, respectively, and is included in selling and marketing expenses in the accompanying consolidated statements of operations. The amount due under the agreement as of December 31, 2016 and 2015 was $73 and $81, respectively.

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 and interim periods within each fiscal year is recorded as an adjustment to deferred rent (See Note 9).

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 December 31, 2016 and 2015, the Company did not have any financial assets or liabilities that are measured on a recurring basis. The Company's financial instruments included cash and cash equivalents, restricted short-term investments, accounts receivable, accounts payable and accrued expenses, accrued payroll and related liabilities, deferred revenue and customer deposits, deferred acquisition obligations, notes payable and capital leases. The carrying amount of these financial instruments, except for deferred acquisition obligations, notes payable and capital leases, approximates fair value due to the short-term maturities of these instruments. The Company's restricted short-term investments are carried at amortized cost, which approximates fair value. Based on borrowing rates currently available to the Company, the carrying values of the deferred acquisition obligations, notes payable and capital leases, approximate their respective fair values.

Derivative Instruments

The Company accounts for free-standing derivative instruments and hybrid instruments that contain embedded derivative features as either assets or liabilities in the consolidated balance sheets and are measured at fair value with gains or losses recognized in earnings. Embedded derivatives that are not clearly and closely related to the host contract are bifurcated and are recognized at fair value with changes in fair value recognized as either a gain or loss in earnings. The Company determines the fair value of derivative instruments and hybrid instruments based on available market data using appropriate valuation models, giving consideration to all of the rights and obligations of each instrument.

The Company estimates the fair value of derivative instruments and hybrid instruments using various techniques (and combinations thereof) that are considered to be consistent with the objective of measuring fair value. In selecting the appropriate technique, the Company considers, among other factors, the nature of the instrument, the market risks that it embodies and the expected means of settlement. The Company generally uses the Black-Scholes-Merton option pricing model, adjusted for the effect of dilution, because it embodies all of the requisite assumptions (including trading volatility, estimated terms, dilution and risk-free rates) necessary to fair value these instruments. Estimating the fair value of derivative financial instruments requires the development of significant and subjective estimates that may, and are likely to, change over the duration of the instrument with related changes in internal and external market factors. Increases in the trading price of the Company's common stock and increases in fair value during a given financial quarter result in the application of non-cash derivative expense. Conversely, decreases in the trading price of the Company's common stock and decreases in fair value during a given financial quarter would result in the application of non-cash derivative income.

Stock-Based Compensation

All stock-based payments to employees, directors 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 estimated 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 estimated 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 the vesting terms of the equity instruments. The measurement date for the estimated fair value of the equity instruments issued is 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 estimated fair value of the equity instrument is primarily recognized over the term of the consulting agreement. According to 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 estimated fair value of nonforfeitable equity instruments issued for future consulting services as prepaid stock-based consulting expenses in its consolidated balance sheets.

Basic and Diluted Net Loss per Common Share

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

Basic and diluted net loss per share is computed using the weighted average number of shares of common stock outstanding during the period. Common stock equivalents (using the treasury stock and "if converted" method) from deferred acquisition obligations, stock options, unvested RSUs, warrants and convertible notes were 9,162,259 and 3,313,169 at December 31, 2016 and 2015, respectively, and are excluded from the calculation of diluted net loss per share for all periods presented because the effect is anti-dilutive. Included in the basic and diluted net loss per share calculation were RSUs awarded to directors that had vested, but the issuance and delivery of the shares are deferred until the director resigns. The number of shares underlying these vested RSUs at December 31, 2016 and 2015 was 80,245 and 55,824, respectively,

The following table shows the computation of basic and diluted net loss per share of common stock for the years ended December 31, 2016 and 2015:

	For the Year Ended December 31, 2016	For the Year Ended December 30, 2015
Numerator – net loss	$ (19,087)	$ (15,899)
Denominator – weighted average number of shares outstanding, basic and diluted	12,743,184	9,576,142
Net loss per share, basic and diluted	$ (1.50)	$ (1.66)

Recently Adopted Accounting Pronouncements

In August 2014, the FASB issued new accounting guidance which defines management's responsibility to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. This guidance is effective for annual periods ended after December 15, 2016 and interim periods within annual periods beginning after December 15, 2016. Early adoption is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The Company has applied the guidance and disclosure provisions of the new standard upon adoption in its 2016 annual consolidated financial statements. The adoption of the guidance did not have a material impact on the Company's consolidated financial statements and its related footnote disclosures.

Recently Issued Accounting Pronouncements

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

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

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments: Recognition and Measurement of Financial Assets and Financial Liabilities*, which addresses certain aspects of recognition, measurement, presentation and disclosure of financial statements. This guidance will be effective in the first quarter of fiscal year 2019 and early adoption is not permitted. The Company is currently evaluating the impact that this guidance will have on its consolidated financial statements.

In March 2016, the FASB issued 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. This guidance will be effective in the first quarter of fiscal year 2017 and early adoption is permitted. The Company is currently evaluating the impact that this guidance will have on its consolidated financial statements.

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 guidance is effective for annual periods beginning after December 15, 2016, and interim periods therein. Early application is permitted. The Company is evaluating the impact of adoption of this guidance on its financial position and results of operations.

NOTE 3. ACQUISITIONS

Acquisition of Park

On January 1, 2015, the Company acquired all of the outstanding capital stock of Park (the "Park Acquisition") from its previous owners (the "Sellers"), such that Park became a wholly owned subsidiary of the Company. The acquisition of Park permits the Company to make and distribute its patent-pending proprietary drug formulations and other novel pharmaceutical solutions through Park and introduces the Company to new geographic and compounded formulation markets.

The transaction has been accounted for as a business combination and the financial results of Park have been included in the Company's consolidated financial statements for the period subsequent to the acquisition.

The estimated acquisition date fair value of consideration transferred, assets acquired and liabilities assumed for Park are presented below and represent the Company's best estimates.

Fair Value of Consideration Transferred

At the closing of the Park Acquisition, the Company paid to the Sellers an aggregate cash purchase price of $3,000, net of fees and expenses, and a $100 payment for cash remaining in a Park bank account, and the Company issued to the Sellers 63,525 shares of the Company's restricted common stock, valued at $500 based on the average closing price of the Company's common stock for the 10 trading days preceding the closing. In addition, the Company is obligated to make 12 quarterly cash payments to the Sellers collectively of $53 each over the three years following the closing of the Park Acquisition, totaling $638; provided that the Sellers will have the option to receive the last six of such payments, totaling up to an aggregate of $319, in the form of 6,749 shares of the Company's common stock for each such payment. The convertible features of the deferred consideration provide for a rate of conversion that is at market value, and as a result no value was attributed to the conversion feature. The Company also recorded a deferred tax liability of $1,047 related to the Park acquisition.

Management applied a discount rate of 15% to the restricted common stock issued at the closing of the Park Acquisition due to a lack of marketability of such shares as a result of certain restrictions on their transfer. The total acquisition date fair value of the consideration transferred and to be transferred is estimated at approximately $5,163.

A $591 liability was recognized for the estimated acquisition date fair value of the deferred consideration and is included in the deferred acquisition obligations in the accompanying consolidated balance sheet at December 31, 2015.

The total acquisition date fair value of consideration transferred and to be transferred is estimated as follows:

Cash payment to Sellers at closing	$	3,100
Restricted common stock issuance to Sellers at closing		425
Deferred tax liability		1,047
Deferred consideration to Sellers		591
Total acquisition date fair value	$	5,163

Allocation of Consideration Transferred

The identifiable assets acquired and liabilities assumed were recognized and measured as of the acquisition date based on their estimated fair values as of January 1, 2015, the acquisition date. The excess of the acquisition date fair value of consideration transferred over the estimated fair value of the net tangible assets and intangible assets acquired was recorded as goodwill.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date.

Cash and cash equivalents	$	95
Accounts receivable		399
Inventories		232
Furniture and equipment		252
Intangible assets		2,629
Total identifiable assets acquired		3,607
Accounts payable and accrued expenses		304
Other liabilities		35
Total liabilities assumed		339
Total identifiable assets less liabilities assumed		3,268
Goodwill		1,895
Net assets acquired	$	5,163

During the year ended December 31, 2015 the discount rate of the common stock issued at the time of the Park Acquisition was adjusted from 25% to 15% which resulted in an increase of $46 and $4 in goodwill and intangible assets, respectively, compared to the initial allocation of the purchase price. The final allocation was based on estimates and appraisals that was based on the Company's final evaluation of Park's assets and liabilities, including both tangible and intangible assets.

Results of Operations

The amount of revenues and net income of Park included in the Company's consolidated statement of operations from the acquisition date through the period ended December 31, 2015 are as follows:

Total revenues	$ 6,134
Net income	$ 1,088

Intangible Assets

Management engaged a third-party valuation firm to assist in the determination of the fair value of the acquired intangible assets of Park. In determining the fair value of the intangible assets, the Company considered, among other factors, the best use of the acquired assets, analyses of historical financial performance of Park and estimates of future performance of Park. The fair values of the identified intangible assets related to Park's customer relationships, trade name, non-competition clause, and state pharmacy licenses. Customer relationships and the non-competition clause were calculated using the income approach. Trade name and state pharmacy licenses were calculated using the cost approach. The following table sets forth the components of identified intangible assets associated with the Park Acquisition and their estimated useful lives.

	Fair Value	Useful Life
Customer relationships	$ 2,387	3 - 15 years
Trade name	10	5 years
Non-competition clause	224	3 years
State pharmacy licenses	8	25 years
	$ 2,629	

The Company determined the useful lives of intangible assets based on the expected future cash flows and contractual life associated with the respective assets. Trade name represents the fair value of the brand and name recognition associated with the marketing of Park's formulations and services. Customer relationships represent the expected future benefit from contracts and relationships which, at the date of acquisition, were reasonably anticipated to continue given the history and operating practices of Park. The non-competition clause represents the contractual period and expected degree of adverse economic impact that would exist in its absence. Licenses represent twelve state pharmacy licenses Park held at the date of acquisition.

Goodwill

Of the total estimated purchase price for the Park Acquisition, $1,895 was allocated to goodwill and is attributable to expected synergies between the combined companies, including access for the Company to fulfill prescriptions with its patent-pending proprietary drug formulations through Park's market channels and assembled workforce. Goodwill represents the excess of the purchase price of the acquired business over the fair value of the underlying net tangible and intangible assets acquired. Goodwill resulting from the business will be tested for impairment at least annually and more frequently if certain indicators are present. In the event the Company determines that the value of goodwill has become impaired, it will incur an accounting charge for the amount of the impairment during the fiscal quarter in which the determination is made. None of the goodwill is expected to be deductible for income tax purposes.

Other 2015 Acquisitions

During 2015, the Company acquired CAP and purchased the assets of TOHC, primarily to expand its compounding pharmacy infrastructure and offerings. These acquisitions were not individually significant. The Company has included the financial results of the CAP acquisition in its consolidated financial statements from its acquisition date and the results from this company were not individually material to the Company's consolidated financial statements. The purchase price for these acquisitions totaled, collectively, approximately $945, which was paid entirely in cash. The Company recorded $641 of net tangible assets and $65 of identifiable intangible assets, based on their estimated fair values, and $239 of residual goodwill.

The acquisition of CAP was not individually significant and the 2015 results from this company were not individually material to our consolidated financial statements.

The Company incurred approximately $201 in acquisition expenses related to the Park Acquisition, $135 in expenses related to the acquisition of the assets of TOHC and did not incur material acquisition expenses related to the acquisition of CAP.

NOTE 4. RESTRICTED CASH AND SHORT-TERM INVESTMENTS

The restricted cash and short-term investments at December 31, 2016 and 2015 consist of a money market account and certificates of deposit, which are classified as held-to-maturity. At December 31, 2016 and 2015, the restricted short-term investments were recorded at amortized cost which approximates fair value.

At December 31, 2016 and 2015, the money market account and the certificates of deposit of $200 and $150, respectively, were classified as a current asset. The certificates of deposit that were required as collateral under the Company's corporate credit card agreement and as additional security for the Company's office space lease were redeemed during the year ended December 31, 2016. The money market account is required for additional security for the Company's New Jersey based facility.

NOTE 5. INVENTORIES

Inventories are comprised of over-the-counter and prescription retail pharmacy products, commercial pharmaceutical products, related laboratory supplies and active pharmaceutical ingredients. The composition of inventories, net of reserve, as of December 31, 2016 and 2015 was as follows:

	December 31, 2016	December 31, 2015
Raw materials	$ 669	$ 775
Finished goods	1,172	637
Total inventories	$ 1,841	$ 1,412

NOTE 6. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets at December 31, 2016 and 2015 consisted of the following:

	December 31, 2016	December 31, 2015
Prepaid insurance	$ 315	$ 297
Other prepaid expenses	517	370
Deposits and other current assets	106	119
Total prepaid expenses and other current assets	$ 938	$ 786

NOTE 7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31, 2016 and 2015 consisted of the following:

	December 31, 2016	December 31, 2015
Property, plant and equipment, net:		
Computer software and hardware	$ 831	$ 323
Furniture and equipment	424	350
Lab and pharmacy equipment	2,559	538
Leasehold improvements	4,836	1,746
	8,650	2,957
Accumulated depreciation and amortization	(1,355)	(300)
	$ 7,295	$ 2,657

The Company recorded depreciation and amortization expense of $1,055 and $255 during the years ended December 31, 2016 and 2015, respectively.

NOTE 8. INTANGIBLE ASSETS AND GOODWILL

The Company's intangible assets at December 31, 2016 consisted of the following:

	Amortization periods (in years)	Cost	Accumulated amortization	Impairment	Net Carrying value
Patents	17-19 years	$ 214	$ (6)	$ -	$ 208
Trademarks	Indefinite	224	-	-	224
Customer relationships	3-15 years	2,998	(554)	(15)	2,429
Trade name	5 years	16	(7)	(1)	8
Non-competition clause	3-4 years	294	(184)	(20)	90
State pharmacy licenses	25 years	45	(4)	(28)	13
		$ 3,791	$ (755)	$ (64)	$ 2,972

The Company's intangible assets at December 31, 2015 consisted of the following:

	Amortization periods (in years)	Cost	Accumulated amortization	Net Carrying value
Patents	17-19 years	$ 64	$ (1)	$ 63
Trademarks	Indefinite	121	-	121
Customer relationships	3-15 years	2,998	(297)	2,701
Trade name	5 years	16	(4)	12
Non-competition clause	3-4 years	294	(99)	195
State pharmacy licenses	25 years	45	(2)	43
		$ 3,538	$ (403)	$ 3,135

Amortization expense for intangible assets for the years ended December 31, 2016 and 2015 was as follows:

	For the Year Ended December 31, 2016	For the Year Ended December 31, 2015
Patents	$ 5	$ 1
Customer relationships	255	260
Trade name	3	3
Non-competition clause	86	90
State pharmacy licenses	2	1
	$ 351	$ 355

Estimated future amortization expense for the Company's intangible assets at December 31, 2016 is as follows:

Years ending December 31,	
2017	$ 359
2018	218
2019	215
2020	212
2021	212
Thereafter	1,755
	$ 2,972

The changes in the carrying value of the Company's goodwill during the years ended December 31, 2016 and 2015 were as follows:

Balance at January 1, 2015	$ 332
Acquisition of Park (see Note 3)	1,895
Acquisition of CAP (see Note 3)	239
Balance at December 31, 2015	2,466
Impairment of CAP (see Note 2)	(239)
Balance at December 31, 2016	$ 2,227

NOTE 9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at December 31, 2016 and 2015 consisted of the following:

	December 31, 2016	December 31, 2015
Accounts payable	$ 2,999	$ 3,185
Deferred rent	412	63
Accrued interest (see Note 10)	116	90
Accrued exit fee for note payable (see Note 10)	667	500
Building lease liability(1)	11	46
Other accrued expenses (2)	-	23
Total accounts payable and accrued expenses	4,205	3,907
Less: Current portion	(3,538)	(3,407)
Non-current total accrued expenses	$ 667	$ 500

(1) In September 2014, the Company relocated its primary operations to a 7,565 square foot office facility in San Diego, California. In February 2015, the Company entered into a sublease agreement to sublet 3,874 square feet of its previously occupied offices through the remaining term of the lease at a monthly rent amount of $8. The Company recognized a loss of approximately $117 during the year ended December 31, 2014 related to the estimated remaining lease liability, net of expected sublease income, of the previously occupied offices. In September 2016, the Company decided to cease operations at its Texas location and started steps to wind down operations. The Company recognized a loss of $16 during the year ended December 31, 2016 related to the estimated remaining lease liability. The obligations were discounted based on current prevailing market rates.

(2) The amount consists of a $23 stock-based compensation accrual at December 31, 2015, for stock options to be granted for services performed. The stock-based compensation expense related to the accruals was $23 during the year ended December 31, 2015. The $23 was recorded to additional paid-in-capital upon issuance of the stock options in 2016.

NOTE 10. DEBT

Senior Note – 2015

On May 11, 2015, the Company entered into a loan and security agreement (the “Loan Agreement”) with IMMY Funding LLC, an affiliate of Life Sciences Alternative Funding LLC (the “Lender”), as lender and collateral agent. Pursuant to the terms of the Loan Agreement, as amended in January 2016 and December 2016 (see further description of December 2016 amendment below), the Lender made available to the Company a term loan in the aggregate principal amount of up to $10,000, all of which was drawn on May 11, 2015. The term loan bore interest at a fixed per-annum rate of 12.5% and allowed for 2% of the interest to be paid-in-kind until December 2016. The Company was permitted to pay interest only until June 1, 2017. The Company is required to pay interest, plus repayments of the principal amount of the term loan, in 20 equal monthly installments. All amounts owed under the Loan Agreement, including a final fee of 5% of the aggregate principal amount of the term loan and prepayment fees of up to 1% of the principal balance are due on January 1, 2019 . The Company incurred expenses of approximately $1,066 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 $667 and $500 for the final fee, as of December 31, 2016 and 2015, respectively, is included in accrued expenses (see Note 9) in the accompanying consolidated balance sheets.

Pursuant to the terms of the Loan Agreement, the Company is bound by certain affirmative covenants setting forth actions that the Company must take during the term of the Loan Agreement, including, among others, certain information delivery requirements, obligations to maintain certain insurance and certain notice requirements. Additionally, the Company is bound by certain negative covenants setting forth actions that the Company may not take during the term of the Loan Agreement without the Lender’s consent, including, among others, disposing of certain of the Company’s or its subsidiaries’ business or property, incurring certain additional indebtedness, entering into certain merger, acquisition or change of control transactions, paying certain dividends or distributions on or repurchasing any of the Company’s capital stock, or incurring any lien or other encumbrance on the Company’s or its subsidiaries’ assets, subject to certain permitted exceptions. Upon the occurrence of an event of default under the Loan Agreement (subject to cure periods for certain events of default), all amounts owed by the Company thereunder may be declared immediately due and payable by the Lender. Events of default include, among others, the following: the occurrence of certain bankruptcy events; the failure to make payments under the Loan Agreement when due; the occurrence of a material adverse change in the business, operations or condition of the Company or any of its subsidiaries; the breach by the Company or its subsidiaries of certain of their material agreements with third parties; the initiation of certain regulatory enforcement actions against the Company or its subsidiaries; the rendering of certain types of fines or judgments against the Company or its subsidiaries; any breach by the Company or its subsidiaries of any covenant (subject to cure periods for certain covenants) made in the Loan Agreement; and the failure of any representation or warranty made by the Company or its subsidiaries in connection with the Loan Agreement to be correct in any material respect when made.

The Company's obligations under the Loan Agreement are guaranteed on a secured basis by its wholly owned subsidiaries. Each of the Company and its subsidiaries has granted the 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 Loan Agreement.

In connection with the Loan Agreement, the Company issued to the Lender a warrant to purchase up to 125,000 shares of the Company's common stock, which is exercisable immediately, has an exercise price of $7.85 per share upon issuance and has a term of 10 years. The relative fair value of the warrants was approximately $840 and was estimated using the Black-Scholes-Merton option pricing model with the following assumptions: fair value of the Company's common stock at issuance of $7.97 per share; ten-year contractual term; 109% volatility; 0% dividend rate; and a risk-free interest rate of 1.25%. The relative fair value of the warrants was recorded as a debt discount, decreasing notes payable and increasing additional paid-in capital on the accompanying consolidated balance sheet. The debt discount is being amortized to interest expense over the term of the debt using the interest method. As described further, this warrant was amended in January 2016 and December 2016. For the years ended December 31, 2016 and 2015, debt discount amortization related to the Loan Agreement was $470 and $281, respectively.

Convertible Senior Note – 2016

On January 22, 2016, the Company entered into a note purchase agreement (the "NPA") with, and issued an 8.00% Convertible Senior Secured Note ("Convertible Note") in the principal amount of $3,000 to, the Lender. Pursuant to the terms of the NPA, on the date thereof, the Company issued the Convertible Note to the Lender and, as consideration therefor, the Lender paid the Company in cash the full principal amount of the Convertible Note. The Company incurred expenses of approximately $228 in connection with the Convertible Note and these expenses were recorded as a debt discount. The debt discount is being amortized as interest expense over the term of the debt using the effective interest method.

Pursuant to the terms of the Convertible Note, the Company is obligated to pay interest on the principal amount of the Convertible Note monthly in cash at a fixed per-annum rate of 8.00%, and the Company is obligated to repay the full principal amount of the Convertible Note in cash on May 11, 2021. The Company is permitted to redeem the Convertible Note prior to its maturity at any time on or after March 1, 2018 for cash purchase prices equal to 109% - 105% of the outstanding principal amount of the Convertible Note, depending on the date of redemption. The Convertible Note was initially convertible by the holder at any time into shares of the Company's common stock at an effective conversion price of approximately $5.90 and subject to anti-dilution adjustment upon the Company's first equity financing while the Convertible Note is outstanding in which it receives gross proceeds of at least $3,000, if such equity financing is completed at a per share price that is less than the conversion rate of the Convertible Note, and also subject to adjustment upon stock combinations or splits, certain recapitalizations, stock or cash dividends or other distributions of property or equity rights. Additionally, in the event of certain change of control events affecting the Company, the Company may be required, at the option of the Lender, to repurchase the Convertible Note in cash for the greater of 105% of the outstanding principal amount of the Convertible Note or the value of the shares of common stock issuable upon conversion of the Convertible Note. The fair value of the conversion feature was $2,322 and was recorded as a debt discount, decreasing notes payable and increasing additional paid-in capital on the accompanying consolidated balance sheet (see also Note 12). The debt discount is being amortized to interest expense over the term of the debt using the effective interest method. For the year ended December 31, 2016, debt discount amortization related to the Convertible Note was $534.

In connection and concurrently with the execution of the NPA and the issuance of the Convertible Note, the Company and the Lender also entered into an amendment (the "Loan Agreement Amendment") to the Loan Agreement (see above). The Loan Agreement Amendment modifies the terms of the Loan Agreement in order to eliminate the potential borrowing of a second term loan thereunder and to permit the Company to issue the Convertible Note. Additionally, the Company and the Lender entered into an amendment (the "Warrant Amendment") to the warrants that were issued to the Lender in connection with the Loan Agreement. The Warrant Amendment modifies the terms of the warrants in order to reduce the exercise price thereof to $5.90 per share, which is consistent with the initial conversion rate of the Convertible Note, and to add an anti-dilution adjustment provision that is consistent with the same such provision in the Convertible Note.

On March 16, 2016, upon the closing of the Offering (see Note 12) and pursuant to the anti-dilution adjustment provisions of the Convertible Note and the Warrant Amendment, the effective conversion price of the Convertible Note was adjusted to approximately $3.60, and the exercise price of the warrants was adjusted to $3.60 per share (see also Note 12 for further accounting discussion of the warrant exercise price and conversion provisions and related derivative liabilities). The warrant was amended again in December 2016, to modify the exercise price to $1.79 per share, in connection with the Exchange Agreement (described below).

On December 27, 2016, the Company entered into a third amendment (the "Amendment") to the Loan Agreement with the Lender. Concurrently with entering into and related to the Amendment, the Company and the Lender also entered into an Exchange and Discharge Agreement (the "Exchange Agreement"). The Amendment and Exchange Agreement, among other things, primarily allowed for the Company and the Lender to exchange the Convertible Note for a $3,000 term loan (the "Term B Loan"). The Term B Loan was issued in exchange for, and not funded separately, cancellation and discharge of all indebtedness related to the Convertible Note. Terms, conditions and security interests of the Term B Loan are substantially equal to those of the Loan Agreement. The Amendment also amended certain terms and definitions associated with prepayment, payment schedule, amortization periods and defined the outstanding principal amounts due to the Lender under the Loan Agreement and Term B Loan, including any interest that has been paid in kind of the principal balance, in aggregate, as $13,332. In connection with the Exchange Agreement, during the year ended December 31, 2016, the Company recorded early extinguishment expense of $1,966 for remaining unamortized debt discounts related to the Convertible Note at the time of the Exchange Agreement.

Notes payable at December 31, 2016 were as follows:

	December 31, 2016
December 2016 Amended Note	$ 13,332
Less: Discount on notes	(1,422)
Less: Current portion	(4,999)
Long-term portion	**$ 6,911**

Future minimum payments under notes payable outstanding at December 31, 2016 are as follows:

Year Ending December 31, 2016	**Amount**
2017	$ 6,485
2018	8,905
Total minimum payments	15,390
Less: amount representing interest	(2,058)
Notes payable, gross	13,332
Less: unamortized discount	(1,422)
Note payable, net of unamortized debt discount	$ 11,910

NOTE 11. CAPITAL LEASE OBLIGATION

On August 9, 2016, the Company entered into a commercial lease agreement (the "Lease Agreement") with Essex Capital Corporation ("Essex"). Pursuant to the terms of the Lease Agreement, the Company sold certain equipment (the "Equipment") to Essex for a total purchase price of approximately $2,000, which was then leased back to the Company under a thirty-six month term net basis lease with monthly payments of approximately $64. The fair value of equipment sold and then leased under the Lease Agreement totaled approximately $2,000. The lease term may be extended for an additional twelve month period in the event the Company achieves certain financial milestones. The Company has the right to purchase the Equipment from Essex upon the expiration of the Lease Agreement for a purchase price equal to the Equipment's then fair market value, with such fair market value not to exceed fifteen percent of the original Equipment value on August 9, 2016. If the Equipment is not purchased at the end of the term, the Company may automatically extend the lease on a month-to-month basis or return the Equipment and terminate the Lease Agreement. The Company expects to purchase the Equipment at the end of the term of the lease and has accrued the final payment amount of $300. The Company also incurred expenses of approximately $67 in connection with the Lease Agreement. The issuance costs were recorded as a discount. The discount is being amortized as interest expense over the term of the lease using the effective interest method. The Company used an interest rate of 16.8% for calculation of the present value of the future minimum payments under the Lease Agreement. For the year ended December 31, 2016, debt discount amortization related to the Lease Agreement was $90 and is included in interest expense in the accompanying consolidated statement of operations.

At December 31, 2016, future payments under the Company's capital lease were as follows:

	Amount
2017	$ 773
2018	773
2019	751
Total minimum lease payments	2,297
Less: amount representing interest payments	(244)
Present value of future minimum lease payments	2,053
Less: unamortized discount	(277)
	1,776
Less: current portion, net of unamortized discount	(458)
Capital lease obligation, net of current portion and unamortized discount	$ 1,318

The value of the equipment under capital leases as of December 31, 2016 and 2015 was $2,070 and $60, respectively, with related accumulated depreciation of $293 and $9, respectively.

NOTE 12. STOCKHOLDERS' EQUITY (DEFICIT) AND STOCK-BASED COMPENSATION

Common Stock

At December 31, 2016 and 2015, the Company had 90,000,000 shares of common stock, $0.001 par value, authorized.

Issuances During the Year Ended December 31, 2015

During the year ended December 31, 2015, the Company issued a total of 130,457 shares of common stock as a result of option exercises. The Company received no cash proceeds for the issuance of the shares of common stock upon the exercise pursuant to cashless exercise provisions of stock options to purchase 255,600 shares of common stock with exercise prices ranging from $3.20 to $4.51 per share.

During the year ended December 31, 2015, the Company issued 1,611 shares of common stock to employees related to the vesting of RSUs, net of 1,241 shares of common stock withheld for payroll tax withholdings totaling $10.

In January 2015, the Company issued 8,521 shares of its common stock in connection with RSUs that had been awarded to a non-employee director and had vested, but were not issued and settled until the resignation of the director on January 1, 2015.

During the year ended December 31, 2015, the Company issued a total of 220,912 shares of common stock as a result of warrant exercises. Of these, the Company received cash proceeds of $1,248 for the issuance of 209,980 shares of common stock upon the exercise on a cash basis of warrants to purchase the same number of shares of common stock with an exercise price of $5.925, and the Company received no cash proceeds for the issuance of 10,932 shares of common stock upon the exercise pursuant to cashless exercise provisions of warrants to purchase 30,457 shares of common stock with an exercise price of $5.25 per share.

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 and to reimburse Cantor Fitzgerald for certain fees and expenses in an amount not to exceed $50. During the fourth quarter of 2015, 72,421 shares of common stock were sold under the Sales Agreement for gross proceeds of approximately $529 and net proceeds, after deducting $16 in commission fees and $109 in offering expenses payable by the Company, of approximately $404.

In January 2015, the Company issued 63,525 shares of restricted common stock, valued at $425, in connection with the Park Acquisition (see Note 3).

During the year ended December 31, 2015, 28,606 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.

Issuances During the Year Ended December 31, 2016

In March 2016, the Company entered into an underwriting agreement (the "Underwriting Agreement") with National Securities Corporation and several other underwriters, under which the Company sold in a firm-commitment public offering (the "Offering"), 3,335,000 shares of the Company's common stock at $3.60 per share. The Offering closed on March 16, 2016. The Company received net proceeds of $11,088, after deducting the underwriting discount and the offering expenses payable by the Company.

The Company sold 57,042 shares of common stock and received net proceeds of $212, after deducting $20 for sales commission and offering expenses, under the Sales Agreement during the year ended December 31, 2016, leaving an aggregate of $1,871 available for future sales of shares thereunder as of December 31, 2016.

In May 2016, we issued 75,000 shares of the Company's common stock, with a fair value of $302, as a contingent payment related to the acquisition of PC (see Note 16).

In October 2016, the Company issued 16,076 shares of its common stock in connection with RSUs that had been awarded to a non-employee director and had vested, but were not issued and settled until the resignation of the director in September 2016.

In December 2016, the Company issued 116,291 shares of its common stock to its CEO, Mark L. Baum, in connection with 200,000 RSUs that had vested in May 2016. The issuance of common stock was net of 83,709 shares of common stock withheld for payroll tax withholdings totaling $144.

In December 2016, the Company entered into a securities purchase agreement with certain purchasers, which provided for the sale of 5,257,828 Units, with each Unit consisting of one share of common stock of the Company, and one warrant to purchase one share of common stock (the "Investor Warrants"), at a price of $1.915 per Unit for aggregate net proceeds of approximately $9,217 after deducting $852 in placement agent fees and offering expenses (the "PIPE Offering"). The Investor Warrants have an exercise price of $1.79 per share, are non-exercisable for the first six months and will expire three years from the date of issuance. The Company paid National Securities Corporation (the "Placement Agent"), in consideration for its services as placement agent for the PIPE Offering, a cash amount equal to 7.5% of the gross proceeds from the sale of the Units. The Company also issued to the Placement Agent a warrant (the "Agent Warrant") to purchase up to 210,313 shares of the Company's common stock. The Agent Warrant was issued on the same terms and conditions of the Investor Warrants.

During the year ended December 31, 2016, the Company issued a total of 15,000 shares of common stock as a result of option exercises. The Company received $55 in cash proceeds for the issuance of the shares of common stock upon the exercise pursuant to exercise provisions of stock options to purchase 15,000 shares of common stock with exercise price of $3.68 per share.

During the year ended December 31, 2016, 24,421 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.

Preferred Stock

At December 31, 2016 and 2015, the Company had 5,000,000 shares of preferred stock, $0.001 par value, authorized and no shares of preferred stock issued and outstanding.

Stock Option Plan

On September 17, 2007, the Company's Board of Directors and stockholders adopted the Company's 2007 Incentive Stock and Awards Plan, which was subsequently amended on November 5, 2008, February 26, 2012, July 18, 2012, May 2, 2013 and September 27, 2013 (as amended, the "Plan"). As of December 31, 2016, the Plan provides for the issuance of a maximum of 5,000,000 shares of the Company's common stock. The purpose of the Plan is to provide an incentive to attract and retain directors, officers, consultants, advisors and employees whose services are considered valuable, to encourage a sense of proprietorship and to stimulate an active interest of such persons in the Company's development and financial success. Under the Plan, the Company is authorized to issue incentive stock options intended to qualify under Section 422 of the Internal Revenue Code, non-qualified stock options, RSUs and restricted stock. The Plan is administered by the Compensation Committee of the Company's Board of Directors. The Company had 815,159 shares available for future issuances under the Plan at December 31, 2016.

Stock Options

A summary of the stock option activity under the Plan for the year ended December 31, 2016 is as follows:

	Number of shares	Weighted Avg. Exercise Price	Weighted Avg. Remaining Contractual Life	Aggregate Intrinsic Value
Options outstanding - January 1, 2016	1,544,026	$ 5.74		
Options granted	549,350	$ 3.99		
Options exercised	(15,000)	$ 3.68		
Options cancelled/forfeit	(65,063)	$ 7.80		
Options outstanding - December 31, 2016	2,013,313	6.20	6.28	$ 13
Options exercisable	808,067	6.18	5.75	$ 13
Options vested and expected to vest	1,892,790	6.20	6.10	$ 13

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 December 31, 2016, based on the closing price of the Company's common stock of $2.50 on that date. The aggregate intrinsic value of stock options exercised during the year ended December 31, 2016 was approximately $29.

During 2016 and 2015, the Company granted stock options to certain employees, directors and consultants. 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 ranging from five to 10 years. Vesting terms for options granted in 2016 and 2015 to employees, directors and consultants 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; quarterly vesting 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 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.

On July 31, 2015, the Company granted to its Chief Executive Officer, Mark Baum, an option (the "Baum Performance Option") to purchase 600,000 shares of the Company's common stock at an exercise price of $7.87 per share under the Plan subject to the satisfaction of certain market-based vesting criteria. The market-based vesting criteria are separated into five tranches and require that the Company achieve and maintain certain average stock price targets ranging from $9 per share to $15 per share during the five year period following the grant date. These market-based vesting conditions are as follows:

Tranche	Number of Shares	Target Share Price
Tranche 1	200,000 shares	$9.00 or greater
Tranche 2	100,000 shares	$10.00 or greater
Tranche 3	100,000 shares	$12.00 or greater
Tranche 4	100,000 shares	$14.00 or greater
Tranche 5	100,000 shares	$15.00 or greater

The Baum Performance Option terminates on the fifth anniversary of the grant date. The fair value of the Baum Performance Option was $2,784 using a Monte Carlo Simulation with a five-year life, 80% volatility and a risk free interest rate of 1.54 %.

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

	2016	2015
Weighted-average fair value of options granted	$ 3.91	$ 6.22
Expected terms (in years)	5.81 - 6.11	5.81 - 6.11
Expected volatility	101 - 112%	101 - 121%
Risk-free interest rate	1.07 - 1.70%	1.39 - 1.68%
Dividend yield	-	-

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

	2016	2015
Weighted-average fair value of options granted	$ 6.18	$ 6.49
Expected terms (in years)	10	10
Expected volatility	109%	108 - 109%
Risk-free interest rate	1.06%	1.06 - 1.63%
Dividend yield	-	-

The following table summarizes information about stock opt0ions outstanding and exercisable at December 31, 2016:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$2.40 - $2.60	147,000	5.80	$ 2.43	125,000	$ 2.40
$3.74 - $4.50	695,623	7.69	$ 4.05	225,256	$ 4.25
$5.49 - $7.99	952,103	5.01	$ 7.54	249,857	$ 6.83
$8.06 - $8.99	213,557	6.10	$ 8.92	202,924	$ 8.95
$42.80	5,030	3.87	$ 42.80	5,030	$ 42.80
	2,013,313	6.28	$ 6.20	808,067	$ 6.18

As of December 31, 2016, there was approximately $5,116 of total unrecognized compensation expense related to unvested stock options granted under the Plan. That expense is expected to be recognized over the weighted-average remaining vesting period of 3.1 years. The stock-based compensation for all stock options was $2,159 and $1,747 during the years ended December 31, 2016 and 2015, 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.

Grants During the Year Ended December 31, 2015

During February 2015, the Company granted 30,000 RSUs to its Chief Financial Officer, Andrew R. Boll and 30,000 RSUs to its Chief Commercial Officer, John P. Saharek, valued at $442 in the aggregate. The RSUs were granted pursuant to the Plan and will vest on the third anniversary of the RSU grant date, subject to the applicable employee's continued employment with the Company on such date and accelerated vesting of all unvested shares thereunder upon the occurrence of a change in control (as defined in the Plan).

During February 2015, the Company granted 157,500 RSUs to Mr. Boll, which are subject to the satisfaction of certain market-based and continued service conditions (the "Boll Performance Equity Award"). The market-based vesting criteria are separated into five tranches and require that the Company achieve and maintain certain stock price targets ranging from $10 per share to $30 per share during the three-year period following the grant date. With certain limited exceptions, Mr. Boll must be employed with the Company on the third anniversary of the grant date in order for the Boll Performance Equity Award to vest.

The market-based vesting conditions applicable to the Boll Performance Equity Award are as follows:

Tranche	Number of Shares	Target Share Price
Tranche 1	30,000 shares	$10.00 or greater
Tranche 2	30,000 shares	$15.00 or greater
Tranche 3	30,000 shares	$20.00 or greater
Tranche 4	30,000 shares	$25.00 or greater
Tranche 5	37,500 shares	$30.00 or greater

The initial fair value of the Boll Performance Equity Award was $228 using a Monte Carlo Simulation with a three-year life, 60% volatility and a risk free interest rate of 0.77%.

During the year ended December 31, 2015, the Company granted an aggregate of 34,166 RSUs to its non-employee directors valued at $270. These RSUs vest in equal quarterly installments over a one year period subject to the director's continued service at the vesting date, but the issuance and delivery of these shares are deferred until the director resigns.

Grants During the Year Ended December 31, 2016

In April 2016, the Company granted performance-based RSU awards to its CEO, Mark L. Baum, of up to 1,050,000 performance stock units and to its CFO, Andrew R. Boll, of up to 157,500 performance stock units. The performance stock units will vest on the fifth anniversary of the grant date, subject to Mr. Baum's and Mr. Boll's continued employment with the Company, respectively, and may vest earlier if the Company achieves and maintains certain stock price targets during the five year period following the grant date or upon a change in control if the performance-based equity award is not assumed, continued or substituted for by the acquiring entity. The market-based accelerated vesting criteria are broken into five equal tranches and require that the Company achieve and maintain certain stock price targets ranging from $9 per share to $15 per share during the five-year period following the grant date. These market-based accelerated vesting conditions and share amounts (in aggregate) are set forth below:

Tranche	Number of shares	Target share price
Tranche 1	230,000 shares	$9.00 or greater
Tranche 2	230,000 shares	$10.00 or greater
Tranche 3	230,000 shares	$12.00 or greater
Tranche 4	230,000 shares	$14.00 or greater
Tranche 5	287,500 shares	$15.00 or greater

For each respective tranche to vest the following conditions must be met: (i) the Company's common stock must have an official closing price at or above the target share price for the respective tranche (each such date, a "Trigger Date"); (ii) during the period that includes the Trigger Date and the immediately following 19 trading days (the "Measurement Period"), the arithmetic mean of the 20 closing prices of the Company's common stock during the Measurement Period must be at or above the target share price for such tranche; and (iii) with certain limited exceptions, the executive must be in service with the Company through the date of vesting.

Concurrent with the issuance of the performance-based restricted stock unit awards, Mr. Baum agreed to forfeit 1,050,000 RSUs subject to performance-based vesting granted to him in May 2013 and Mr. Boll agreed to forfeit the Boll Performance Equity Award granted to him in February 2015. As a result, the issuance of the performance-based RSUs awarded in April 2016 have been treated as modifications of the RSUs granted to Mr. Baum in May 2013 and Mr. Boll in February 2015 for accounting purposes. The Company used a lattice binomial model to estimate a derived service period of 33 months related to the performance-based vesting grants and used the following assumptions:

	2016
Market price	$ 3.98
Contractual terms (in years)	5.00
Expected volatility	102%
Risk-free interest rate	1.04%
Dividend yield	-

During the year ended December 31, 2016, the Company granted an aggregate of 63,450 RSUs to its non-employee directors valued at $250. These RSUs vest in equal quarterly installments over a one year period subject to the director's continued service at the vesting date, but the issuance and delivery of these shares are deferred until the director resigns.

A summary of the Company's RSU activity and related information for the year ended December 31, 2016 is as follows:

	Number of RSUs	Weighted Average Grant Date Fair Value
RSUs unvested - January 1, 2016	1,487,961	$ 3.18
RSUs granted	1,270,950	$ 2.25
RSUs vested	(249,018)	$ 8.32
RSUs cancelled/forfeit	(1,217,017)	$ 1.95
RSUs unvested at December 31, 2016	1,292,876	$ 2.43

As of December 31, 2016, the total unrecognized compensation expense related to unvested RSUs was approximately $3,873 which is expected to be recognized over a weighted-average period of 1.8 years, based on estimated vesting schedules. The stock-based compensation for RSUs was $1,539 and $1,671 during the years ended December 31, 2016 and 2015, respectively.

The Company recorded stock-based compensation (including issuance of common stock for services and accrual for stock-based compensation) related to equity instruments granted to employees, directors and consultants as follows:

	For the Year Ended December 31, 2016	For the Year Ended December 30, 2015
Employees - selling and marketing	$ 498	$ 370
Employees - general and administrative	2,954	2,720
Directors - general and administrative	221	268
Consultants - selling and marketing	-	83
Other - general and administrative	115	-
Total	$ 3,788	$ 3,441

Warrants

From time to time, the Company issues warrants to purchase shares of the Company's common stock to investors, lenders (see Note 10), underwriters and other non-employees for services rendered or to be rendered in the future.

A summary of warrant activity during the year ended December 31, 2016 is as follows:

	Number of Shares Subject to Warrants Outstanding	Weighted Avg. Exercise Price
Warrants outstanding - January 1, 2016	240,688	$ 7.41
Granted	5,508,141	$ 1.80
Exercised	-	
Expired	-	
Warrants outstanding and exercisable - December 31, 2016	5,748,829	$ 1.91
Weighted average remaining contractual life of the outstanding warrants in years - December 31, 2016	3.08	

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 warrants granted related to settlement agreements:

	2016
Weighted-average fair value of warrants granted	2.88
Expected terms (in years)	5
Expected volatility	106%
Risk-free interest rate	0.79%
Dividend yield	-

All warrants outstanding as of December 31, 2016 are included in the following table:

		Warrants Outstanding		Warrants Exercisable	
Warrant Series	Issue Date	Warrants Outstanding	Exercise Price	Warrants Exercisable	Expiration Date
Lender warrants (see Note 10)	5/11/2015	125,000	$ 1.79	125,000	5/11/2025
Underwriter warrants	2/7/2013	55,688	$ 5.25	55,688	2/7/2018
Settlement warrants	8/16/2016	40,000	$ 3.75	40,000	8/16/2021
Warrants issued to investor relations consultant	7/19/2013	60,000	$ 8.50	60,000	7/19/2018
Placement Agent Warrants	12/27/2016	210,313	$ 1.79	-	12/27/2019
PIPE Investor Warrants	12/27/2016	5,257,828	$ 1.79	-	12/27/2019
		5,748,829	$ 1.91	280,688	

NOTE 13. DERIVATIVE INSTRUMENTS

During the year ended December 31, 2016, the Company modified certain common stock purchase warrants issued in conjunction with debt which are detachable, or free standing, instruments. The warrants were considered a derivative liability upon modification and the estimated fair value of the warrants was reclassified from equity to liabilities. In addition, the Company recorded a derivative liability and debt discount associated with the estimated fair value of the embedded conversion feature in the Convertible Note (see Note 10). Both instruments contained a provision which allowed for one-time adjustments to their exercise or conversion prices. The one-time adjustment occurred upon the closing of the Company's underwritten public offering of its common stock (see Note 12), on March 16, 2016, whereby the conversion and exercise prices were adjusted from $5.90 to $3.60 per share. At the time of the one-time adjustment, the Company reclassified the derivative liabilities to equity based on their then estimated fair value at that time. The Company estimated the fair value of the derivative liabilities utilizing Level 3 inputs. The Company used the Black-Scholes-Merton option pricing model as it embodies all of the requisite assumptions (including trading volatility, remaining term to maturity, market price, strike price, and risk-free rates) necessary to value these instruments.

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 derivative liabilities:

	2016
Expected volatility	103 - 111%
Risk-free interest rate	1.22 - 1.70%
Dividend yield	-

The Company estimated the expected terms based on the remaining contractual life of the instruments on the date of the fair value measurement. The warrant expires on May 11, 2025 and the convertible note had an original maturity date of May 11, 2021.

The following table provides a reconciliation of all liabilities measured at fair value using Level 3 significant unobservable inputs:

	September 30, 2016
Warrant derivative liability:	
Balance at January 1, 2016	$ -
Modification of warrant and reclassification from equity to liabilities	675
Change in fair value	(211)
Reclassification from liabilities to equity upon closing of public equity offering	(464)
Balance at December 31, 2016	$ -
Embedded conversion feature derivative liability:	
Balance at January 1, 2016	$ -
Embedded conversion feature in Convertible Note issued	2,322
Change in fair value	324
Reclassification from liabilities to equity upon closing of public equity offering	(2,646)
Balance at December 31, 2016	$ -

NOTE 14. INCOME TAXES

The Company is subject to taxation in the United States, California, New Jersey, Texas and Pennsylvania. The provision for income taxes for the years ended December 31, 2016 and 2015 are summarized below:

	December 31, 2016	December 31, 2015
Current:		
Federal	$ -	$ -
State	8	5
Total current	$ 8	$ 5
Deferred:		
Federal	$ 19,847	$ 14,037
State	5,802	4,036
Change in valuation allowance	(25,760)	(18,072)
Total deferred	(111)	-
Income tax provision (benefit)	$ (103)	$ 5

Income taxes for the years ended December 31, 2016 and 2015, are recorded in the general and administrative expenses line item in the accompanying consolidated statements of operations.

A reconciliation of income taxes computed by applying the statutory U.S. income tax rate to the Company's loss before income taxes to the income tax provision is as follows:

	December 31, 2016	December 31, 2015
U.S. federal statutory tax rate	35.00%	35.00%
Benefit of lower tax brackets	(1.00)%	(1.00)%
State tax benefit, net	0.08%	(0.03)%
Research and development credits	0.00%	0.00%
Employee stock based compensation	(1.47)%	(0.67)%
Loss on debt conversion	0.00%	0.00%
Other	(0.18)%	(0.71)%
Valuation allowance	(31.89)%	(32.62)%
Effective income tax rate	0.54%	(0.03)%

Deferred tax assets and liabilities reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets are as follows (in thousands):

	December 31, 2016	December 31, 2015
Deferred tax assets (liabilities):		
NOL's	$ 21,555	$ 15,099
Depreciation and amortization	199	121
Other	398	346
Research & development credits	556	556
Deferred stock compensation	3,875	2,997
Park stock purchase identifiable intangibles	(936)	(1,047)
Unrealized gain or loss on investments	-	-
Total deferred tax assets, net	25,647	18,072
Valuation allowance	(26,583)	(19,119)
Net deferred tax liabilities	$ (936)	$ (1,047)

Realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance. The valuation allowance increased by approximately $7.4 and $5.2 in 2016 and 2015, respectively.

As of December 31, 2016, the Company had net operating loss carryforwards for federal income tax purposes of approximately $54,275 which expire beginning in the year 2027 and federal research and development tax credits of approximately $354 which expire beginning in the year 2026. As of December 31, 2015, the Company had net operating loss carryforwards for state income tax purposes of approximately $52,334 which expire beginning in the year 2017 and state research and development tax credits of approximately $305 which do not expire.

The deferred tax asset at December 31, 2015 does not include any excess tax benefits from employee stock option exercises and RSU vests that are a component of the federal and California net operating loss carryover, respectively. The Company's stockholders' equity balance will be increased if and when such excess tax benefits are ultimately realized.

Utilization of the net operating losses may be subject to substantial annual limitation due to federal and state ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such annual limitations could result in the expiration of the net operating losses ad credits before their utilization.

The Company did not have any unrecognized tax benefits as of December 31, 2016 and 2015, all of which is offset by a full valuation allowance. These unrecognized tax benefits, if recognized, would not affect the effective tax rate.

NOTE 15. EMPLOYEE SAVINGS PLAN

The Company has established an employee savings plan pursuant to Section 401(k) of the Internal Revenue Code, effective January 1, 2014. The plan allows participating employees to deposit into tax deferred investment accounts up to 100% of their salary, subject to annual limits. The Company makes certain matching contributions to the plan in amounts up to 4% of the participants' annual cash compensation, subject to annual limits. The Company contributed approximately $248 and $146 to the plan during the years ended December 31, 2016 and 2015, respectively.

NOTE 16. COMMITMENTS AND CONTINGENCIES

Contingent Acquisition Obligation

On April 1, 2014, the Company acquired all of the outstanding membership interests of Pharmacy Creations, LLC ("PC"). The sellers of PC, are entitled to receive certain payments, including contingent consideration upon certain conditions, if PC earns revenue of between $3,500 and $7,500 during the 12 month period ending March 31, 2016, an aggregate of that number of shares of Imprimis common stock equal to the amount that such revenue exceeds $3,500 divided by 18.5882, rounded down to the lower whole number (not to exceed 215,190 shares). The estimated fair value of the contingent acquisition obligation was $483 and included in the contingent acquisition obligation in the accompanying balance sheet at December 31, 2015. During May 2016, the Company paid the sellers of PC $100 in cash and 75,000 shares of its common stock with a fair value of $302, as payment in full related to the contingent acquisition obligation. Related to the payment of the contingent acquisition obligation the Company recorded a gain of $81 during the year ended December 31, 2016, which is included in other income, net in the accompanying consolidated statement of operations.

Operating Leases

In June 2014, the Company entered into a lease agreement for 7,565 square feet of office space that commenced on September 1, 2014 and continues until October 31, 2018. Monthly rent began on September 1, 2014 in the amount of $20,426, with a 3% increase in the base rent amount on an annual basis. The lease agreement allows for the monthly rent amount to be abated for two months at various times during the lease agreement.

In January 2015, the Company entered into a commercial lease agreement, for the lease to Park of approximately 4,500 square feet of laboratory and office space. The monthly rent amount is $10 and includes annual increases of approximately 3%. The current lease term expires on December 31, 2020.

In February 2015, the Company entered into a lease agreement for approximately 8,602 square feet of laboratory, warehouse and office space in Roxbury, New Jersey. The current lease term expires on July 31, 2022. The monthly rent amount is $10 and includes annual increases of approximately 3.75%, and the lease allows for the first five months of rent amounts to be abated.

In August 2015, the Company entered into a lease agreement for approximately 1,100 square feet of laboratory, warehouse and office space in Allen, Texas. The lease term expires on October 31, 2019. The monthly rent amount is $3 and includes annual increases of approximately 2%. Subsequent to December 31, 2016, the Company transferred its obligations under the Allen, Texas lease as a part of the Company's sale of ImprimisRx TX, Inc. (See also Note 18).

Rent expense for the years ended December 31, 2016 and 2015 was $668 and $641, respectively. The following represents future annual minimum lease payments, net of expected sublease income, as of December 31, 2016:

2017	$	495
2018		496
2019		257
2020		266
2021		134
Thereafter		79
Total	**$**	**1,727**

Legal

Urigen, et. al, Litigation

On October 2014, the Company entered into a license agreement (the "Urigen License") with Urigen Pharmaceuticals, Inc. ("Urigen") for a license of certain U.S. patents and patent applications to develop and sell in the U.S. Urigen's URG101 product, a heparin and alkalinized lidocaine compounded formulation for the prevention or treatment of disorders of the lower urinary tract. The Company, as the plaintiff, filed a civil action in the San Diego Superior Court against Urigen in December 2015, wherein the Company outlined serious concerns regarding material failures and inaccuracies of the representation and warranties provided by Urigen in the Urigen License, which have affected the Company's ability to realize the expected benefit of the Urigen License. Urigen filed a cross-complaint in April 2016 for breach of contract asserting unpaid royalties totaling $698 and requesting a decree to cancel the Urigen Agreement. The Company filed another complaint in May 2016 with the U.S. District Court for the Southern District of California for declaratory judgment of the invalidity of the core patent filing related to Urigen's URG 101. In June 2016, the Company received notice from Urigen of their election to terminate the Urigen License. In November 2016, the Company and Urigen entered into a settlement and mutual release agreement whereby all parties agreed to settle all disputes related to the Urigen License and associated litigation matters, the Company agreed to make a one-time payment to Urigen related to past sales of Urigen's URG101 product and to cease selling the URG101 product over a certain period of time. The Company recorded a gain related to the settlement with Urigen totaling $551 which is included in other income, net in the accompanying consolidated statement of operations.

Corwin, Kammer, et. al. Litigation

In February 2014, Robert Kammer ("Kammer"), the Company's Chairman of the Board, filed a lawsuit in the San Diego Superior Court against Merlyn Corwin ("Corwin") to enforce his contract rights related to a settlement agreement the parties had previously entered into involving shares of the Company's common stock. Corwin filed an answer to the complaint in March 2014 and in June 2014 filed the first amended cross complaint adding the Company as a cross-defendant. In August 2014, Corwin filed a seconded amended cross complaint (the "SACC") which added Mark Baum ("Baum"), the Company's Chief Executive Officer, and an individual who previously provided consulting services to the Company as additional cross-defendants. The SACC alleged numerous causes of action including securities fraud, concealment, misrepresentations, inducement of misrepresentations, rescission – undue influence, intentional infliction of emotional distress and declaratory relief of invalidity of the settlement agreement. In September 2014, the Company and Baum filed an anti-strategic lawsuit against public participation motion ("Anti-SLAPP"), arguing all allegations in the SACC were based on protected activity under the litigation privilege. Kammer also filed an Anti-SLAPP motion in October 2014. In November 2014, the Company, Baum and Kammer were granted both Anti-SLAPP motions, with the ruling judge deciding that the parties successfully demonstrated that the allegations arose from activity protected by the litigation privilege. The judge further found that the evidence Corwin relied upon in her arguments failed to demonstrate a probability that she could prevail on any of the claims. The court then ordered Corwin to pay the Company's and Baum's attorney fees and the case was dismissed. In May 2015, Corwin filed an appeal and in November 2015, the appellate court reversed the Anti-SLAPP decision of the trial court. In April 2016, the Company and Baum filed a demurrer to the SACC. The court ordered a ruling on the demurrer in June 2016, dismissing most of the causes of action against Baum and the Company, but leaving the claim for fraud by concealment and intentional infliction of emotional distress. In August 2016, all parties related to this litigation entered into a settlement and mutual release agreement, whereby all parties agreed to settle all disputes and release one another of any legal claims. The Company issued 40,000 at-the-money warrants (see Note 12) as part of the settlement consideration. The estimated fair value of the warrant (see Note 12) and associated legal expenses were recorded in general and administrative expenses during the year ended December 31, 2016 in the accompanying consolidated statement of operations.

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 consolidated balance sheets.

Insurance Claims

In June 2016, the Company's Texas based facility was damaged related to a malfunction with the property's sprinkler system. The Company commenced restoration efforts and filed claims for damages under its insurance policies, including claims related to business interruption. During the year ended December 31, 2016, the Company recorded the insurance claim of $861 in other income, net in the accompanying consolidated statement of operations which reflected amounts paid by its insurance carrier related to the claims filed for property damage and business interruption.

PCCA Commission Agreement

On December 21, 2015, the Company entered into a Commission Agreement (the "PCCA Commission Agreement) with Professional Compounding Centers of America, Inc. ("PCCA"). The PCCA Commission Agreement replaces a Strategic Alliance Agreement (the "PCCA Strategic Alliance Agreement") entered into on February 18, 2013 and a License Agreement (the "PCCA License Agreement) entered into on August 30, 2012, in each case between the Company and PCCA. Upon the execution of the PCCA Commission Agreement, the Company and PCCA mutually agreed to terminate the PCCA Strategic Alliance Agreement and PCCA License Agreement. No amounts were due or paid under either the PCCA Strategic Alliance Agreement or PCCA License Agreement.

PCCA has previously introduced to the Company certain PCCA members, which led to the Company's acquisition of certain intellectual property (the "PCCA Member IP") from such PCCA members. Under the terms of the PCCA Strategic Alliance Agreement, PCCA had the right to receive certain commissions based on the Company's net sales, if any, of any products utilizing the PCCA Member IP. The primary purpose of the PCCA Commission Agreement is to specifically identify the PCCA Member IP subject to this arrangement and to revise the terms and the amount of the commission payments. As a result, pursuant to the terms of the PCCA Commission Agreement, PCCA continues to hold its right to receive commissions based on the Company's net sales, if any, of any products utilizing the PCCA Member IP. No commission amounts were paid or accrued under this agreement for the years ended December 31, 2016 and 2015.

Asset Purchase Agreements

The Company has acquired intellectual property rights related to certain proprietary innovations from certain inventors (the "Inventors") through multiple asset purchase agreements. The asset purchase agreements provide that the Inventors will cooperate with the Company in obtaining patent protection for the acquired intellectual property and that the Company will use commercially reasonable efforts to research, develop and commercialize a product based on the acquired intellectual property. In addition, the Company has acquired a right of first refusal on additional intellectual property and drug development opportunities presented by these Inventors.

In consideration for the acquisition of the intellectual property rights, the Company is obligated to make payments to the Inventors based on the completion of certain milestones, generally consisting of: (1) a payment payable within 30 days after the issuance of the first patent in the United States arising from the acquired intellectual property (if any); (2) a payment payable within 30 days after the Company files the first investigational new drug application ("IND") with the FDA for the first product arising from the acquired intellectual property (if any); (3) for certain of the Inventors, a payment payable within 30 days after the Company files the first new drug application with the FDA for the first product arising from the acquired intellectual property (if any); and (4) certain royalty payments based on the net receipts received by the Company in connection with the sale or licensing of any product based on the acquired intellectual property (if any), after deducting (among other things) the Company's development costs associated with such product. If, following five years after the date of the applicable asset purchase agreement, the Company either (a) for certain of the Inventors, has not filed an IND or, for the remaining Inventors, has not initiated a study where data is derived, or (b) has failed to generate royalty payments to the Inventors for any product based on the acquired intellectual property, the Inventors may terminate the applicable asset purchase agreement and request that the Company re-assign the acquired technology to the Inventors. $3 and $0 were accrued under these agreements for royalty expenses during the years ended December 31, 2016 and 2015, respectively.

NOTE 17. SEGMENT INFORMATION AND CONCENTRATIONS

The Company operates the 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 United States; therefore, total revenues for 2016 and 2015 are attributed to the United States. All long-lived assets at December 31, 2016 and 2015 are located in the United States.

The Company sells its compounded formulations to a large number of customers. No single customer contributed 10% or more of the Company's total pharmacy sales in the years ended December 31, 2016 and 2015.

The Company receives its active pharmaceutical ingredients from two and three main supplier during the years ended December 31, 2016 and 2015, respectively. These suppliers collectively accounted for 63% and 43% of drug and chemical purchases during the years ended December 31, 2016 and 2015, respectively.

NOTE 18. SUBSEQUENT EVENTS

The Company has performed an evaluation of events occurring subsequent to December 31, 2016 through the filing date of this Annual Report on Form 10-K (the "Annual Report"). Based on its evaluation, nothing other than the events described below needs to be disclosed.

In February 2017, the Company entered into a Stock Purchase Agreement (the "TX SPA") with Livernois & London, LLC ("Livernois"). Pursuant to the terms of the TX SPA, the Company sold to Livernois and Livernois purchased from the Company one hundred percent (100%) of the issued and outstanding shares of common stock of the Company's Texas based subsidiary, ImprimisRx TX, Inc. dba ImprimisRx ("Imprimis TX"). The Company ceased operations of Imprimis TX in 2016 and the Agreement does not transfer to Livernois any Company rights to intellectual property, products, clients, nor any existing Company 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 approximately $113 for its Texas based facility. ImprimisRx TX did not have significant operation and as such, the closure and selling of the subsidiary is not presented as discontinued operations.

EXHIBIT INDEX

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated as of September 17, 2007, by and among Imprimis Pharmaceuticals, Inc., Transdel Pharmaceuticals Holdings, Inc. and Trans-Pharma Acquisition Corp. Incorporation (incorporated herein by reference to Exhibit 2.1 to the Current Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on September 21, 2007)
2.2	Membership Interest Purchase Agreement, dated February 10, 2014, among John Scott Karolchyk and Bernard Covalesky and Imprimis Pharmaceuticals, Inc. (incorporated herein by reference to Exhibit 2.1 to the Current Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on February 11, 2014)
2.3	Stock Purchase Agreement, dated as of November 26, 2014, by and between Imprimis Pharmaceuticals, Inc., and Dennis Saadeh and Tina Sulic-Saadeh (incorporated herein by reference to Exhibit 2.1 to the Current Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on December 2, 2014)
2.4	Stock Purchase Agreement, effective as of July 10, 2015, by and between Imprimis Pharmaceuticals, Inc. and Jonathan Nguyen and Julie Trinh, to acquire all of the outstanding capital stock of JT Pharmacy, Inc. D/B/A Central Allen Pharmacy and completed on August 4, 2015 (incorporated herein by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on August 12, 2015)
3.1*	Amended and Restated Certificate of Incorporation, as amended by the Certificate of Amendment to Amended and Restated Certificate of Incorporation effective February 28, 2012, as further amended by the Certificate of Amendment to Amended and Restated Certificate of Incorporation effective February 7, 2013, and as further amended by the Certificate of Amendment to Amended and Restated Certificate of Incorporation effective September 10, 2014
3.2	Amended and Restated Bylaws of Imprimis Pharmaceuticals, Inc. (incorporated herein by reference to Exhibit 3.2 to the Annual Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on March 28, 2014)
3.3	Certificate of Designation of Series A Convertible Preferred Stock of Imprimis Pharmaceuticals, Inc. (incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on December 20, 2011)
10.1	Form of Directors and Officers Indemnification Agreement (incorporated herein by reference to Exhibit 10.8 to the Current Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on September 21, 2007)
10.2#	Imprimis Pharmaceuticals, Inc. Amended and Restated 2007 Stock Incentive and Awards Plan (incorporated herein by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on May 8, 2013)
10.3#	Amendment No. 1 to Imprimis Pharmaceuticals, Inc. Amended and Restated 2007 Incentive Stock and Awards Plan (incorporated herein by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on November 6, 2013)
10.4#	Form of Incentive Stock Option Agreement (incorporated herein by reference to Exhibit 10.12 to the Current Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on September 21, 2007)
10.5#	Form of Non-Qualified Stock Option Agreement (incorporated herein by reference to Exhibit 10.13 to the Current Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on September 21, 2007)
10.6#	Form of Restricted Stock Unit Agreement (incorporated herein by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on May 8, 2013)
10.7	Form of Warrant dated as of April 25, 2012 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on 8-K filed with the Securities and Exchange Commission on April 27, 2012)
10.8#	Stand-alone Restricted Stock Unit Agreement, dated July 18, 2012, granted by Imprimis Pharmaceuticals, Inc. to Mark L. Baum (incorporated herein by reference to Exhibit 10.40 to the Company's Registration Statement on Form S-1 (File No. 333-182846) filed on July 25, 2012)
10.9#	Stand-alone Restricted Stock Unit Agreement, dated July 18, 2012, granted by Imprimis Pharmaceuticals, Inc. to Robert J. Kammer (incorporated herein by reference to Exhibit 10.41 to the Company's Registration Statement on Form S-1 (File No. 333-182846) filed on July 25, 2012)
10.10	License Agreement, dated as of August 30, 2012, by and between Imprimis Pharmaceuticals, Inc. and Professional Compounding Centers of America, Inc. (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on August 31, 2012)
10.21	Form of Underwriter's Warrant (incorporated herein by reference to Exhibit 10.41 to the Company's Registration Statement on Form S-1 (File No. 333-182846) filed on October 26, 2012)
10.12	Strategic Alliance Agreement, dated February 18, 2013, by and between Imprimis Pharmaceuticals, Inc. and Professional Compounding Centers of America, Inc. (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on February 21, 2013)

10.13#	Amended and Restated Employment Agreement, dated May 2, 2013, by and between Imprimis Pharmaceuticals, Inc. and Mark L. Baum (incorporated herein by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on May 8, 2013)

10.14#	Performance Stock Units Agreement, dated May 2, 2013, by and between Imprimis Pharmaceuticals, Inc. and Mark L. Baum (incorporated herein by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on August 14, 2013)
10.15+	Asset Purchase Agreement, dated June 11, 2013, by and between Imprimis Pharmaceuticals, Inc. and Buderer Drug Company, Inc. (incorporated herein by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on August 14, 2013)
10.16+	Asset Purchase Agreement, dated August 8, 2013, by and among Imprimis Pharmaceuticals, Inc., Novel Drug Solutions, LLC and Eye Care Northwest, PA (incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on November 6, 2013)
10.17	Amendment to Asset Purchase Agreement, dated as of October 14, 2013, by and among Imprimis Pharmaceuticals, Inc., Novel Drug Solutions, LLC and EyeCare Northwest, PA (incorporated herein by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on November 6, 2013)
10.18+	Asset Purchase Agreement, dated October 8, 2013, by and between Imprimis Pharmaceuticals, Inc. and Novel Drug Solutions, LLC (incorporated herein by reference to Exhibit 10.27 to the Annual Report on Form 10-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on March 28, 2014)
10.19	Amendment to Asset Purchase Agreement, dated as of October 21, 2013, by and between Imprimis Pharmaceuticals, Inc. and Buderer Drug Company, Inc. (incorporated herein by reference to Exhibit 10.28 to the Annual Report on Form 10-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on March 28, 2014)
10.20	Amendment to Asset Purchase Agreement, dated as of October 21, 2013, by and between Imprimis Pharmaceuticals, Inc. and Novel Drug Solutions, LLC and EyeCare Northwest, PA (incorporated herein by reference to Exhibit 10.29 to the Annual Report on Form 10-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on March 28, 2014)
10.21	License Agreement, dated as of October 24, 2014, by and between Imprimis Pharmaceuticals, Inc. and Urigen Pharmaceuticals, Inc. (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on October 29, 2014)
10.22#	Amended and Restated Employment Agreement, effective as of February 1, 2015, by and between Imprimis Pharmaceuticals, Inc. and Andrew R. Boll (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on February 2, 2015)
10.23#	Performance Stock Units Award Agreement, effective as of February 1, 2015, by and between Imprimis Pharmaceuticals, Inc. and Andrew R. Boll (incorporated herein by reference to Exhibit 10.2 to the Current Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on February 2, 2015)
10.24#	Employment Agreement, effective as of February 1, 2015, by and between Imprimis Pharmaceuticals, Inc. and John P. Saharek (incorporated herein by reference to Exhibit 10.3 to the Current Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on February 2, 2015)
10.25	Warrant to Purchase Stock, dated May 11, 2015, issued by Imprimis Pharmaceuticals, Inc. (incorporated herein by reference to Exhibit 10.2 to the Current Report on Form 8-Kof Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on May 12, 2015)
10.26	Loan and Security Agreement, dated May 11, 2015, by and between Imprimis Pharmaceuticals and IMMY Funding LLC. (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-Kof Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on May 12, 2015)
10.27	License Agreement dated as of August 11, 2015, between Imprimis Pharmaceuticals, Inc. and Advance Dosage Forms, Inc. and John DiGenova (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on August 12, 2015)
10.28	Asset Purchase Agreement originally dated September 23, 2015 and subsequently amended on October 15, 2015, between ImprimisRx PA, Inc. (“ImprimisRx PA”), a Delaware corporation and a wholly-owned subsidiary of Imprimis Pharmaceuticals, Inc. and Thousand Oaks Holding Company, a Delaware corporation, and its wholly owned subsidiaries Topical Apothecary Group, LLC, a Pennsylvania limited liability company and owner and operator of TAG Pharmacy, a licensed pharmacy in Folcroft, PA; Aerosol Science Laboratories, Inc., a California corporation and former operator of ASL Pharmacy; SinuTopic, Inc., a Delaware corporation and former operator of Sinus Dynamics Pharmacy; and Mycotoxins, LLC, a California limited liability company (incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on November 12, 2015)
10.29	Controlled Equity Offering[SM] Sales Agreement, dated November 27, 2015, by and between Imprimis Pharmaceuticals, Inc. and Cantor Fitzgerald & Co (incorporated herein by reference to Exhibit 1.1 to the Current Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on November 27, 2015)
10.30*	PCCA Commission Agreement, dated December 21, 2015, by and between Imprimis Pharmaceuticals, Inc. and Professional Compounding Centers of America, Inc.
10.31	8.00% Convertible Senior Secured Note issued on January 22, 2016 by Imprimis Pharmaceuticals, Inc. (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission

on January 25, 2016)

10.32	Note Purchase Agreement dated January 22, 2016 between Imprimis Pharmaceuticals, Inc. and IMMY Funding LLC (incorporated herein by reference to Exhibit 10.2 to the Current Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on January 25, 2016)
10.33	Second Amendment to Loan and Security Agreement dated January 22, 2016 between Imprimis Pharmaceuticals, Inc. and IMMY Funding LLC (incorporated herein by reference to Exhibit 10.3 to the Current Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on January 25, 2016)
10.33	Amendment to Warrant to Purchase Stock dated January 22, 2016 between Imprimis Pharmaceuticals, Inc. and IMMY Funding LLC (incorporated herein by reference to Exhibit 10.4 to the Current Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on January 25, 2016)
10.34	Underwriting Agreement, dated as of March 11, 2016, by and between Imprimis Pharmaceuticals, Inc. and National Securities Corporation (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on March 11, 2016)
10.35	Securities Purchase Agreement, dated December 19, 2016, between the Registrant and the Investors party thereto (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on December 23, 2016)
10.36	Form of Registration Rights Agreement between the Registrant and the Investors party thereto (incorporated herein by reference to Exhibit 10.2 to the Current Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on December 23, 2016)
10.37	Form of Investor Warrant (incorporated herein by reference to Exhibit 10.3 to the Current Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on December 23, 2016)
10.38	Third Amendment to Loan and Security Agreement, dated December 27, 2016, by and between Imprimis Pharmaceuticals and IMMY Funding LLC (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on December 29, 2016)
10.39	Exchange and Discharge Agreement, dated December 27, 2016, by and between Imprimis Pharmaceuticals and IMMY Funding LLC (incorporated herein by reference to Exhibit 10.2 to the Current Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on December 29, 2016)
10.40	Warrant Amendment to Purchase Stock, dated December 27, 2016, issued by Imprimis Pharmaceuticals, Inc. (incorporated herein by reference to Exhibit 10.3 to the Current Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on December 29, 2016)
10.41	Stock Purchase Agreement dated February 13, 2017 between Imprimis Pharmaceuticals, Inc. and Livernois & London, LLC (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K of Imprimis Pharmaceuticals, Inc. filed with the Securities and Exchange Commission on February 17, 2017)
21.1*	List of Subsidiaries
23.1*	Consent of Independent Registered Public Accounting Firm
24.1*	Power of Attorney (included on the signature page to this Annual Report)
31.1*	Certification of Mark L. Baum, Chief 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, Chief Financial 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, Chief Executive Officer.
32.2**	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Andrew R. Boll, Chief Financial Officer.
101.INS*	XBRL Instant Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

Management contract or compensatory plan or arrangement.

* Filed herewith.

** Furnished herewith.

\+ Confidential treatment has been granted with respect to portions of this exhibit pursuant to Rule 24b-2 of the Exchange Act and these confidential portions have been redacted from the filing that is incorporated herein by reference. A complete copy of this exhibit, including the redacted terms, has been separately filed with the Securities and Exchange Commission.

Exhibit 21.1

IMPRIMIS PHARMACEUTICALS, INC. SUBSIDIARIES
as of December 31, 2016

Name of Subsidiary	State of Incorporation or Organization
Imprimis NJOF, LLC	New Jersey
ImprimisRx NJ, LLC	New Jersey
ImprimisRx CA, Inc.	California
ImprimisRx PA, Inc.	Delaware
ImprimisRx TX, Inc.	Texas

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-159159, 333-183488 and 333-198674 on Form S-8 and Registration Statement Nos. 333-198675 and 333-215672 on Form S-3 of our report dated March 21, 2017, relating to the consolidated financial statements of Imprimis Pharmaceuticals, Inc. and subsidiaries, appearing in this Annual Report on Form 10-K of Imprimis Pharmaceuticals, Inc. for the year ended December 31, 2016.

/s/ KMJ Corbin & Company LLP

Costa Mesa, California
March 21, 2017

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 Form 10-K for the fiscal year ended December 31, 2016 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: March 21, 2017

/s/ Mark L. Baum

Mark L. Baum
Chief 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 Form 10-K for the fiscal year ended December 31, 2016 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: March 21, 2017

/s/ Andrew R. Boll

Andrew R. Boll
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Imprimis Pharmaceuticals, Inc. (the "Company") for the period ended December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Mark L. Baum, Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that to his knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 21, 2017

/s/ Mark L. Baum

Mark L. Baum
Chief Executive Officer

This certification accompanies this Report on Form 10-K 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.

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Imprimis Pharmaceuticals, Inc. (the "Company") for the period ended December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Andrew R. Boll, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that to his knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 21, 2017

/s/ Andrew R. Boll

Andrew R. Boll
Chief Financial Officer

This certification accompanies this Report on Form 10-K 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.