

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

FORM 10-Q

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

For the quarterly period ended **September 30, 2016**

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

For the transition period from _____ to _____

Commission File Number: **001-35814**

Imprimis Pharmaceuticals, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

45-0567010

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

**12264 El Camino Real, Suite 350
San Diego, CA**

(Address of principal executive offices)

92130

(Zip code)

(858) 704-4040

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>

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

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

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

As of November 11, 2016, 13,253,796 shares of the registrant's common stock, \$0.001 par value, were outstanding.

IMPRIMIS PHARMACEUTICALS, INC.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,362	\$ 2,685
Restricted cash and short-term investments	450	150
Accounts receivable, net	2,233	840
Insurance receivable	841	-
Inventories	1,902	1,412
Prepaid expenses and other current assets	1,162	786
Total current assets	8,950	5,873
Property, plant and equipment, net	7,346	2,657
Intangible assets, net	2,994	3,135
Goodwill	2,227	2,466
TOTAL ASSETS	\$ 21,517	\$ 14,131
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Accounts payable and accrued expenses	\$ 3,795	\$ 3,407
Accrued payroll and related liabilities	1,291	1,200
Deferred revenue and customer deposits	55	65
Current portion of deferred acquisition obligation and accrued interest	205	198
Current portion of contingent acquisition obligation	-	483
Current portion of capital lease obligations, net of unamortized discount	434	21
Total current liabilities	5,780	5,374
Capital lease obligations, net of current portion and unamortized discount	1,439	1
Deferred acquisition obligation, net of current portion	104	258
Accrued expenses, net of current portion	585	500
Deferred tax liability	1,047	1,047
Note payable and paid-in-kind interest, net of unamortized debt discount	8,816	8,336
Convertible note payable, net of unamortized debt discount	914	-
TOTAL LIABILITIES	18,685	15,516
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock, \$0.001 par value, 90,000,000 shares authorized, 13,229,320 and 9,755,678 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	13	10
Additional paid-in capital	73,568	56,369
Accumulated deficit	(70,749)	(57,764)
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	2,832	(1,385)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 21,517	\$ 14,131

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

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

	For the Three Months Ended September 30, 2016	For the Three Months Ended September 30, 2015	For the Nine Months Ended September 30, 2016	For the Nine Months Ended September 30, 2015
Revenues:				
Sales, net	\$ 4,858	\$ 2,682	\$ 14,141	\$ 6,161
License revenues	3	1	8	52
Total revenues	4,861	2,683	14,149	6,213
Cost of sales	(2,339)	(1,202)	(6,760)	(3,259)
Gross profit	2,522	1,481	7,389	2,954
Operating expenses:				
Selling and marketing	1,797	1,813	5,967	4,455
General and administrative	5,018	3,104	13,355	8,327
Research and development	16	93	138	299
Impairment of intangible assets and goodwill	303	-	303	-
Total operating expenses	7,134	5,010	19,763	13,081
Loss from operations	(4,612)	(3,529)	(12,374)	(10,127)
Other income (expense):				
Interest expense, net	(732)	(423)	(1,992)	(679)
Change in fair value of derivative liabilities	-	-	(113)	-
Other income, net	1,494	-	1,494	31
Total other income (expense), net	762	(423)	(611)	(648)
Net loss	\$ (3,850)	\$ (3,952)	\$ (12,985)	\$ (10,775)
Basic and diluted net loss per share of common stock	\$ (0.29)	\$ (0.41)	\$ (1.05)	\$ (1.13)
Weighted average number of shares of common stock outstanding, basic and diluted	13,471,004	9,603,541	12,404,328	9,501,730

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

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

	For the Nine Months Ended September 30, 2016	For the Nine Months Ended September 30, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (12,985)	\$ (10,775)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of furniture and equipment	699	186
Amortization of intangible assets	262	264
Amortization of debt discount	829	175
Paid-in-kind added to principal of note payable	153	79
Non-cash gain on contingent acquisition obligations	(83)	(31)
Change in fair value of derivative liabilities	113	-
Impairment of intangible assets and goodwill	303	-
Stock-based compensation	2,989	2,317
Issuance of warrant related to litigation settlement	115	-
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts and insurance receivable	(2,162)	(221)
Inventories	(490)	(605)
Prepaid expenses and other current assets	(450)	(444)
Accounts payable and accrued expenses	1,648	845
Accrued payroll and related liabilities	93	349
Deferred revenue and customer deposits	(11)	19
NET CASH USED IN OPERATING ACTIVITIES	(8,977)	(7,842)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments on Pharmacy Creations contingent acquisition obligation	(100)	-
Purchase of Central Allen Pharmacy, net of cash	-	(421)
Purchase of Park Compounding, net of cash	-	(3,005)
Investment in marketable securities	(300)	-
Investment in patent and trademark assets	(185)	(129)
Purchases of property, plant and equipment	(6,540)	(704)
NET CASH USED IN INVESTING ACTIVITIES	(7,125)	(4,259)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligations	(119)	(18)
Net proceeds from public equity offering	11,088	-
Payments on Park deferred acquisition obligation	(145)	(87)
Proceeds from note payable, net of issuance costs	-	9,303
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	195	-
Net proceeds from exercise of warrants and stock options	55	1,248
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	15,779	10,446
NET CHANGE IN CASH AND CASH EQUIVALENTS	(323)	(1,655)
CASH AND CASH EQUIVALENTS, beginning of period	2,685	8,211
CASH AND CASH EQUIVALENTS, end of period	\$ 2,362	\$ 6,556
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	\$ 9	\$ 1
Cash paid for interest	\$ 984	\$ 414
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Fair value of embedded conversion feature recorded as debt discount and derivative liability	\$ 2,322	\$ -
Reclassification of the fair value of the embedded conversion feature derivative liability to additional paid-in capital upon closing of the public equity offering	\$ 2,646	\$ -
Reclassification of the fair value of the LSAF warrant from additional paid-in capital to derivative liability	\$ 675	\$ -
Reclassification of the fair value of the LSAF warrant derivative liability to additional paid-in capital upon closing of the public equity offering	\$ 464	\$ -
Issuance of common stock and 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	\$ 122	\$ -

IMPRIMIS PHARMACEUTICALS, INC.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended September 30, 2016 and 2015
(Dollar amounts in thousands, except share and per share data)

NOTE 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Company and Background

Imprimis Pharmaceuticals, Inc. (together with its subsidiaries, unless the context indicates or otherwise requires, the “Company” or “Imprimis”) is a national leader in the development, production and dispensing of novel compounded pharmaceuticals. The Company is focused on patient outcomes and affordability by offering high quality customizable compounded drugs in all 50 states. Imprimis is headquartered in San Diego, California and operates three pharmacy facilities located in California, New Jersey and Pennsylvania, which may be referred hereinafter collectively as our “ImprimisRx compounding facilities.”

Basis of Presentation

Imprimis has prepared the accompanying unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for audited financial statements. In the opinion of management, all adjustments (consisting of only normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016 or for any other period. For further information, refer to the Company’s audited consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following represents an update for the nine months ended September 30, 2016 to the significant accounting policies described in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

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 compensation issued to employees and non-employees. Actual results could differ from those estimates.

Going Concern and Liquidity

The Company has incurred significant operating losses and negative cash flows from operations since its inception. The Company incurred net losses of \$12,985 and \$10,775 for the nine months ended September 30, 2016 and 2015, respectively, and had an accumulated deficit of \$70,749 and \$57,764 as of September 30, 2016 and December 31, 2015, respectively. In addition, the Company used cash in operating activities of \$8,977 and \$7,842 for the nine months ended September 30, 2016 and 2015, respectively.

While there is no assurance, the Company believes its existing cash resources and restricted investments of approximately \$2,812 at September 30, 2016, along with \$841 in proceeds received from insurance claims (see Note 12), is not sufficient to sustain the Company's planned level of operations for at least the next twelve months. The Company's history of recurring losses, and uncertainties as to whether the Company's operations will become profitable, raise substantial doubt about its ability to continue as a going concern.

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with GAAP which contemplates continuation of the Company as a going concern and the realization of assets and satisfaction of liabilities in the normal course of business. The ability of the Company to continue its operations is dependent on the execution of management's plans, which include the raising of capital through the debt and/or equity markets, until such time that funds provided by operations are sufficient to fund working capital requirements. The condensed consolidated financial statements contained in this report do not include any adjustments related to the recoverability of assets or classifications of liabilities that might be necessary should the Company be unable to continue as a going concern. If the Company is not able to continue as a going concern, it would likely not be able to realize its assets at values comparable to the carrying value or the fair value estimates reflected in the balances set out in the condensed consolidated financial statements.

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; sale and leaseback arrangements; entering into leasing facilities; 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.

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, per deposit category, with the same institution. At September 30, 2016, the Company had approximately \$2,111 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 that the Company has invoiced or from third-party providers (e.g., insurance companies and governmental agencies), 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 \$272 and \$180 as of September 30, 2016 and December 31, 2015, respectively.

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. See the impairment amount recorded to goodwill during the three months ended September 30, 2016 below.

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 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 intangible assets and goodwill on the Condensed Consolidated Statements of Operations during the three and nine months ended September 30, 2016.

Revenue Recognition and Deferred Revenue

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

Product Revenues

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

License Revenues

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

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

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 condensed 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 condensed consolidated statements of operations.

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 September 30, 2016 and December 31, 2015, the Company did not have any financial assets or liabilities that are measured on a recurring basis. At September 30, 2016 and December 31, 2015, 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, 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 condensed 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.

Third Party Billing and Collection Agreements

In connection with its acquisition of South Coast Specialty Compounding, Inc. D/B/A Park Compounding ("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 condensed consolidated balance sheets. Total billing and collection management expense under this agreement for the three and nine months ended September 30, 2016 were \$0 and \$24, respectively, and \$7 and \$28, for the three and nine months ended September 30, 2015, respectively, and is included in selling and marketing expenses in the accompanying condensed consolidated statements of operations. The amounts due under the agreement as of September 30, 2016 and December 31, 2015 were \$30 and \$81, respectively.

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 condensed 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 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 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 condensed consolidated balance sheets.

Income Taxes

The Company accounts for income taxes under the provisions of FASB Accounting Standards Codification (“ASC”) 740, *Income Taxes*, or ASC 740. As of September 30, 2016, there were no unrecognized tax benefits included in the condensed consolidated balance sheet that would, if recognized, affect the effective tax rate. The Company’s practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had no accrual for interest or penalties in its condensed consolidated balance sheets at September 30, 2016 and December 31, 2015, and has not recognized interest and/or penalties in the condensed consolidated statements of operations for the three and nine months ended September 30, 2016 and 2015. The Company is subject to taxation in the United States, New Jersey, Texas, Pennsylvania and California. 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.

Basic and Diluted Net Loss per Common Share

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

Basic and diluted net loss per share is computed using the weighted average number of shares of common stock outstanding during the period. Common stock equivalents (using the treasury stock or “if converted” method) from deferred acquisition obligations, convertible note payable, stock options, unvested RSUs and warrants were 4,424,397 and 3,382,512 at September 30, 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 our CEO, Mark Baum, that have vested, but issuance and delivery of shares has not occurred and 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 September 30, 2016 and 2015 was 281,283 and 39,880, respectively.

The following table shows the computation of basic and diluted net loss per share of common stock for the three and nine months ended September 30, 2016 and 2015:

	For the Three Months Ended September 30, 2016	For the Three Months Ended September 30, 2015	For the Nine Months Ended September 30, 2016	For the Nine Months Ended September 30, 2015
Numerator – net loss	\$ (3,850)	\$ (3,952)	\$ (12,985)	\$ (10,775)
Denominator – weighted average number of shares outstanding, basic and diluted	13,471,004	9,603,541	12,404,328	9,501,730
Net loss per share, basic and diluted	\$ (0.29)	\$ (0.41)	\$ (1.05)	\$ (1.13)

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 condensed consolidated financial statements.

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 will be effective for annual periods ending 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 will apply the guidance and disclosure provisions of the new standard upon adoption in its 2016 annual 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, to be recognized as assets and liabilities on the balance sheet. 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 condensed 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 condensed 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. RESTRICTED CASH AND SHORT-TERM INVESTMENTS

The restricted cash and short-term investments at September 30, 2016 and December 31, 2015 consisted of certificates of deposit, which are classified as held-to-maturity, and funds held in a money market account. At September 30, 2016 and December 31, 2015, the restricted short-term investments were recorded at amortized cost, which approximates fair value.

At September 30, 2016 and December 31, 2015, the certificates of deposit and funds held in a money market account of \$450 and \$150 were classified as a current asset. These certificates of deposit and money market account funds are required as collateral under the Company's corporate credit card agreement and additional security for the Company's office space and New Jersey facility lease, and the certificates of deposit automatically renew every twelve months.

NOTE 4. INVENTORIES

Inventories are comprised of finished compounded formulations, over-the-counter and prescription retail pharmacy products, commercial pharmaceutical products, related laboratory supplies and active pharmaceutical ingredients. The composition of inventories as of September 30, 2016 and December 31, 2015 was as follows:

	<u>September 30, 2016</u>	<u>December 31, 2015</u>
Raw materials	\$ 801	\$ 775
Finished goods	1,101	637
Total inventories	<u>\$ 1,902</u>	<u>\$ 1,412</u>

NOTE 5. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consisted of the following:

	<u>September 30, 2016</u>	<u>December 31, 2015</u>
Prepaid insurance	\$ 443	\$ 297
Other prepaid expenses	613	370
Deposits and other current assets	106	119
Total prepaid expenses and other current assets	<u>\$ 1,162</u>	<u>\$ 786</u>

NOTE 6. INTANGIBLE ASSETS AND GOODWILL

The Company's intangible assets at September 30, 2016 consisted of the following:

	Amortization periods (in years)	Cost	Accumulated amortization	Impairment	Net Carrying value
Patents	17-19 years	\$ 168	\$ (6)	\$ -	\$ 162
Trademarks	Indefinite	201	-	-	201
Customer relationships	3-15 years	2,998	(488)	(15)	2,495
Trade name	5 years	16	(6)	(1)	9
Non-competition clause	3-4 years	294	(161)	(20)	113
State pharmacy licenses	25 years	45	(4)	(28)	13
		<u>\$ 3,722</u>	<u>\$ (665)</u>	<u>\$ (64)</u>	<u>\$ 2,994</u>

Amortization expense for intangible assets for the three and nine months ended September 30, 2016 was as follows:

	For the Three Months Ended September 30, 2016	For the Three Months Ended September 30, 2015	For the Nine Months Ended September 30, 2016	For the Nine Months Ended September 30, 2015
Patents	\$ 4	\$ -	\$ 5	\$ -
Customer relationships	60	66	191	195
Trade name	-	1	2	2
Non-competition clause	16	22	62	66
State pharmacy licenses	-	-	2	1
	<u>\$ 79</u>	<u>\$ 88</u>	<u>\$ 262</u>	<u>\$ 264</u>

Estimated future amortization expense for the Company's intangible assets at September 30, 2016 is as follows:

Remainder of 2016	\$	90
2017		357
2018		216
2019		212
2020		210
Thereafter		1,908
	\$	<u>2,994</u>

Changes to the carrying value of the Company's goodwill during the nine months ended September 30, 2016 was as follows:

Balance at December 31, 2015		2,466
Impairment related to Texas facility cessation		(239)
Balance at September 30, 2016	\$	<u>2,227</u>

NOTE 7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following:

	September 30, 2016	December 31, 2015
Accounts payable	\$ 3,222	\$ 3,185
Deferred rent	429	63
Accrued interest (see Note 8)	108	90
Accrued exit fee for note payable (see Note 8)	500	500
Building lease liability(1)	121	46
Other accrued expenses (2)	-	23
Total accounts payable and accrued expenses	<u>4,380</u>	<u>3,907</u>
Less: Current portion	(3,795)	(3,407)
Non-current total accrued expenses	<u>\$ 585</u>	<u>\$ 500</u>

(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 \$121 during the nine months ended September 30, 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 related to stock options to be granted for consulting services provided. The stock options were granted during the nine months ended September 30, 2016 and the \$23 was recorded to additional paid-in-capital.

NOTE 8. 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, 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 loans bear interest at a fixed per-annum rate of 12.5% and allows for 2% of the interest to be paid-in-kind until either February 2017 or May 2017, depending upon the Company's ability to meet certain revenue or cash balance measures. The Company is permitted to pay interest only for the first three years and after the end of the interest-only period, the Company will be required to pay interest, plus repayments of the principal amount of the term loans, in 36 equal monthly installments. The interest-only period may be reduced to 20 months if the Company does not meet certain minimum revenue or cash balance requirements and the Company would be required to pay interest, plus repayments of the principal amount of the term loan, in 24 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, will be due on the earlier of May 11, 2021, or 24 months after the end of the interest-only period. The Company incurred expenses of approximately \$735 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 \$500 for the final fee is included in accrued expenses (see Note 7) in the accompanying condensed 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 has issued to the Lender a warrant to purchase up to 125,000 shares of the Company's common stock, which is exercisable immediately, had 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 condensed 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. For the three and nine months ended September 30, 2016 and 2015, debt discount amortization related to the Loan Agreement was \$110 and \$327 and \$105 and \$175, respectively.

On January 22, 2016, the Company entered into a note purchase agreement (the “NPA”) with, and issued an 8.00% Convertible Senior Secured Note in the principal amount of \$3,000 (the “Convertible Note”) 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 was recorded as a debt discount. The debt discount is being amortized as interest expense over the term of the debt using the 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 relative 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 condensed consolidated balance sheet (see also Note 10). The debt discount is being amortized to interest expense over the term of the debt using the interest method. For the three and nine months ended September 30, 2016, debt discount amortization related to the Convertible Note was \$155 and \$464, respectively.

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 10) 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 10 for further accounting discussion of the warrant exercise price and conversion provisions and related derivative liabilities).

Notes payable at September 30, 2016 was as follows:

	<u>September 30, 2016</u>
Senior Note - 2015	\$ 10,000
Convertible Senior Note - 2016	3,000
Add: Interest paid-in-kind	283
Less: Discount on notes	(3,553)
Less: Current portion	-
Long-term portion	\$ 9,730

Future minimum payments as of September 30, 2016 are as follows:

	<u>Amount</u>
Remainder of 2016	\$ 437
2017	1,435
2018	2,981
2019	4,423
2020	4,424
Thereafter	5,711
Total minimum payments	19,411
Less: amount representing interest and interest paid-in-kind	(6,411)
Notes payable, gross	13,000
Add: interest paid-in-kind	283
Less: unamortized discount	(3,553)
Note payable and interest paid-in-kind, net of unamortized debt discount	<u>\$ 9,730</u>

NOTE 9. 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 leased back to the Company under a thirty-six month term net basis lease with monthly payments of approximately \$64. The fair value and undepreciated amounts of equipment sold and 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 cost. If the equipment is not purchased, 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 included the final payment amount of \$300 in its future payment schedule. 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 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 and is amortizing the debt issuance costs at a rate of 1.8%. For the three and nine months ended September 30, 2016, debt discount amortization related to the Lease Agreement was \$37.

The Company has also leased other equipment under capital leases with an interest rate of 4.25% per annum. At September 30, 2016, future payments under the Company's capital leases were as follows:

	Amount
Remainder of 2016	\$ 194
2017	775
2018	773
2019	751
Total minimum lease payments	2,493
Less: amount representing interest payments	(590)
Present value of future minimum lease payment	1,903
Less: current portion	(434)
Less: unamortized discount	(30)
Capital lease obligation, net of current portion and unamortized discount	<u>\$ 1,439</u>

NOTE 10. STOCKHOLDERS' EQUITY (DEFICIT) AND STOCK-BASED COMPENSATION

Common Stock

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.

In November 2015, the Company entered into a Controlled Equity OfferingSM 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. In March 2016, in connection with the Offering, the Company reduced the amount available for sale pursuant to the Sales Agreement with Cantor Fitzgerald to shares of its common stock having an aggregate offering price of \$2,625. The Company sold 48,642 shares of common stock and received net proceeds of \$195, after deducting \$16 for sales commission and offering expenses, under the Sales Agreement during the nine months ended September 30, 2016, leaving an aggregate of \$1,885 available for future sales of shares thereunder as of September 30, 2016.

In May 2016, 200,000 shares of the Company's common stock underlying RSUs issued to its CEO, Mark L. Baum vested, but delivery of these shares has not yet occurred.

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 (defined below) (see also Note 12).

During the nine months ended September 30, 2016, 33,154 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.

During the nine months ended September 30, 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.

Preferred Stock

At September 30, 2016, 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 September 30, 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 attract and retain directors, officers, consultants, advisors and employees whose services are considered valuable, to encourage a sense of proprietorship and to stimulate an active interest of such persons in the Company's development and financial success. Under the Plan, the Company is authorized to issue incentive stock options intended to qualify under Section 422 of the Internal Revenue Code, non-qualified stock options, restricted stock units and restricted stock. The Plan is administered by the Compensation Committee of the Company's Board of Directors.

Stock Options

A summary of stock option activity under the Plan for the nine months ended September 30, 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	502,350	\$ 4.02		
Options exercised	(15,000)	\$ 3.68		
Options cancelled/forfeit	(60,313)	\$ 8.02		
Options outstanding - September 30, 2016	<u>1,971,063</u>	6.25	6.28	\$ 178,525
Options exercisable	<u>760,071</u>	6.26	5.86	\$ 176,250
Options vested and expected to vest	<u>1,850,552</u>	6.25	6.27	\$ 178,298

The aggregate intrinsic value in the table above represents the total pre-tax amount of the proceeds, net of exercise price, which would have been received by option holders if all option holders had exercised and immediately sold all options with an exercise price lower than the market price on September 30, 2016, based on the closing price of the Company's common stock of \$3.81 on that date. The aggregate intrinsic value of stock options exercised during the nine months ended September 30, 2016 was approximately \$29.

During the nine months ended September 30, 2016, the Company granted stock options to certain employees 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 of 10 years. Vesting terms for options granted to employees and consultants during the nine months ended September 30, 2016 typically included one of the following vesting schedules: 25% of the shares subject to the option vest and become exercisable on the first anniversary of the grant date and the remaining 75% of the shares subject to the option vest and become exercisable quarterly in equal installments thereafter over three years; or 100% vesting associated with the provision or completion of services provided under contracts with consultants. Certain option awards provide for accelerated vesting if there is a change in control (as defined in the Plan) and in the event of certain modifications to the option award agreement.

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

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

	2016	
Weighted-average fair value of options granted	\$	3.91
Expected terms (in years)		5.81 - 6.11
Expected volatility		101 - 107%
Risk-free interest rate		1.07 - 1.70%
Dividend yield		-

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

	2016	
Weighted-average fair value of options granted	\$	4.37
Expected terms (in years)		10.00
Expected volatility		104%
Risk-free interest rate		1.14%
Dividend yield		-

The following table summarizes information about stock options outstanding and exercisable at September 30, 2016:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	
\$2.40	125,000	5.32	\$ 2.40	125,000	\$ 2.40	
\$3.74 - \$4.50	678,123	7.89	\$ 4.06	194,005	\$ 4.29	
\$5.49 - \$7.99	949,353	5.26	\$ 7.54	234,328	\$ 6.80	
\$8.06 - \$8.99	213,557	6.37	\$ 8.92	201,708	\$ 8.95	
\$42.80	5,030	3.87	\$ 42.80	5,030	\$ 42.80	
	<u>1,971,063</u>	6.28	\$ 6.25	<u>760,071</u>	\$ 6.26	

As of September 30, 2016, there was approximately \$5,111 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 3.3 years. The stock-based compensation expense for all stock options was \$471 and \$1,772 during the three and nine months ended September 30, 2016, 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.

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 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 157,500 RSUs subject to performance-based vesting 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		-

A summary of the Company's RSU activity and related information for the nine months ended September 30, 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	(236,326)	\$ 8.56
RSUs cancelled/forfeit	(1,217,017)	\$ 1.95
RSUs unvested at September 30, 2016	1,305,568	\$ 2.45

As of September 30, 2016, the total unrecognized compensation expense related to unvested RSUs was approximately \$3,874, which is expected to be recognized over a weighted-average period of 2.0 years, based on estimated and actual vesting schedules of the applicable RSUs. The stock-based compensation for RSUs during the three and nine months ended September 30, 2016 was \$313 and \$1,237, respectively.

Warrants

From time to time, the Company issues warrants to purchase shares of the Company's common stock to investors, lenders (see Note 8), underwriters, settlement agreements and other non-employees for services rendered or to be rendered in the future.

A summary of warrant activity for the nine months ended September 30, 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	40,000	3.75
Exercised	-	
Expired	-	
Warrants outstanding and exercisable - September 30, 2016	<u>280,688</u>	<u>\$ 5.20</u>
Weighted average remaining contractual life of the outstanding warrants in years - September 30, 2016	<u>5.19</u>	

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	-

A list of the warrants outstanding as of September 30, 2016 is included in the following table:

Warrant Series	Issue Date	Warrants Outstanding		Warrants Exercisable	
		Warrants Outstanding	Exercise Price	Warrants Exercisable	Expiration Date
Lender warrants (see Note 8)	5/11/2015	125,000	\$ 3.60	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
		<u>280,688</u>	<u>\$ 5.20</u>	<u>280,688</u>	

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

	For the Three Months Ended September 30, 2016	For the Three Months Ended September 30, 2015	For the Nine Months Ended September 30, 2016	For the Nine Months Ended September 30, 2015
Employees - selling and marketing	\$ 102	\$ 106	\$ 348	\$ 281
Employees - general and administrative	600	754	2,465	1,791
Directors - general and administrative	62	96	176	204
Consultants - selling and marketing	-	-	-	41
Other - general and administrative	115	-	115	-
Total	<u>\$ 879</u>	<u>\$ 956</u>	<u>\$ 3,104</u>	<u>\$ 2,317</u>

NOTE 11. DERIVATIVE INSTRUMENTS

During the nine months ended September 30, 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 8). 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 10), 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 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 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 matures on 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 June 30, 2016	<u>\$ -</u>
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 September 30, 2016	<u>\$ -</u>

NOTE 12. 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 condensed 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 \$0 and \$81 during the three and nine months ended September 30, 2016, respectively, which is included in other income in the accompanying condensed consolidated statement of operations.

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 alkalized 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 condensed 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 10) as part of the settlement consideration. The fair value of the warrant and associated legal expenses were recorded in general and administrative expenses and netted against estimated accruals recorded prior to September 30, 2016 in the accompanying condensed 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 condensed 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 three and nine months ended September 30, 2016, the Company recorded the insurance claim of \$861 in other income, net in the condensed consolidated statements of operations which reflected amounts payable by its insurance carrier related to the claims filed for property damage and business interruption. During the nine months ended September 30, 2016 \$20 was paid and at September 30, 2016, \$841 was included in insurance receivable in the accompanying condensed consolidated balance sheet.

Asset Purchase, License and Commission Agreements

The Company has acquired intellectual property rights related to certain proprietary innovations from certain inventors (the "Inventors") through multiple asset purchase, license and commission agreements. In consideration for the acquisition of the intellectual property rights, the Company is obligated to make certain milestone payments related to patent and regulatory filings to the Inventors and also make payments, in one instance a minimum annual amount, based on certain percentages of revenues and net sales amounts, as defined within the respective agreements. During the three and nine months ended September 30, 2016, the Company recognized \$91 and \$452, respectively, and \$48 and \$50, during the three and nine months ended September 30, 2015, respectively, in expense amounts related to these agreements. Such amounts are included in cost of sales and sales and marketing expenses in the accompanying condensed consolidated statements of operations.

NOTE 13. SEGMENT INFORMATION AND CONCENTRATIONS

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

The Company categorizes revenues by geographic area based on selling location. All operations are currently located in the U.S.; therefore, total revenues for 2016 and 2015 are attributed to the U.S. All long-lived assets at September 30, 2016 and December 31, 2015 are located in the U.S.

The Company sells its compounded formulations to a large number of customers. Less than 10% of the Company's total pharmacy sales were derived from a single customer for the three and nine months ended September 30, 2016 and 2015.

The Company receives its active pharmaceutical ingredients from three main suppliers. These suppliers collectively accounted for 76% and 72% during the three and nine months ended September 30, 2016, respectively, and 49% and 55% during the three and nine months ended September 30, 2015, respectively, of active pharmaceutical ingredient purchases.

NOTE 14. SUBSEQUENT EVENTS

The Company has performed an evaluation of events occurring subsequent to September 30, 2016 through the filing date of this Quarterly Report. Based on its evaluation, nothing other than the events described below needs to be disclosed.

In October 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 on September 20, 2016.

The Company sold 8,400 shares of common stock and received net proceeds of \$18, after deducting \$1 for sales commission and offering expenses, under the Sales Agreement.

In October 2016, the Company entered into a purchase and supply agreement the specialty pharmacy division of a leading pharmacy care services company. Pursuant to the terms of the agreement, the Company will provide the specialty pharmacy with compounded pharmaceutical products from its Imprimis Cares formulary of low-cost compounded therapeutic alternatives. The Company has not yet begun to make substantive amount of sales under this agreement, although it expects that sales will begin to increase to a meaningful level during the last two quarters of 2017.

Described further in Note 12, in November 2016, the Company and Urogen entered into a settlement and mutual release agreement whereby all parties agreed to settle all disputes related to the Urogen License and associated litigation matters, the Company agreed to make a one-time payment to Urogen related to past sales of Urogen'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 Urogen totaling \$551 during the nine months ended September 30, 2016.

Described further in Note 12, the Company filed claims for damages under its insurance policies, including claims related to property damage and business interruption related to its Texas facility. In November 2016, the Company and its insurance carrier agreed to a total payment amount for settlement of the claims of \$861. During the nine months ended September 30, 2016 \$20 was paid and \$840 was paid in November 2016. The total claim amount consisted of \$44 related to property damage and \$818 connected to business interruption, less a \$1 deductible.

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

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

The information contained in this Quarterly Report is not a complete description of our business or the risks associated with an investment in our common stock. We urge you to carefully review and consider the various disclosures made by us in this Quarterly Report and in our other reports filed with the U.S. Securities and Exchange Commission (the “SEC”), including our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 and subsequent reports on Form 8-K, which discuss our business in greater detail. Unless the context indicates otherwise, the “Company”, “we”, “us”, and “our” in this Item 2 and elsewhere in this Quarterly Report refer to Imprimis Pharmaceuticals, Inc., a Delaware corporation, 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 Quarterly Report other than statements of historical fact are forward-looking statements. These forward-looking statements involve risks and uncertainties and reflect only our current views, expectations and assumptions with respect to future events and our future performance. If risks or uncertainties materialize or assumptions prove incorrect, actual results or events could differ materially from those expressed or implied by such forward-looking statements. Risks that could cause actual results to differ from those expressed or implied by the forward-looking statements we make include, among others, risks related to: our ability to successfully implement our business plan, develop and commercialize our proprietary formulations in a timely manner or at all, identify and acquire additional proprietary formulations, manage our pharmacy operations, service our debt, obtain financing necessary to operate our business, recruit and retain qualified personnel, manage any growth we may experience and successfully realize the benefits of our acquisitions of Pharmacy Creations, LLC (“Pharmacy Creations”), South Coast Specialty Compounding, Inc. D/B/A Park Compounding (“Park”), Thousand Oaks Holding Company’s wholly-owned subsidiaries Topical Apothecary Group, LLC (d/b/a TAG Pharmacy), Aerosol Science Laboratories, Inc. (d/b/a ASL Pharmacy), SinuTopic, Inc. (d/b/a Sinus Dynamics Pharmacy) and Mycotoxins, LLC (collectively “ImprimisRx PA”), and any other acquisitions and collaborative arrangements we may pursue; competition from pharmaceutical companies, outsourcing facilities and pharmacies; general economic and business conditions; regulatory and legal risks and uncertainties related to our pharmacy operations and the pharmacy and pharmaceutical business in general; physician interest in and market acceptance of our current and any future formulations and compounding pharmacies generally; our limited operating history; and the other risks and uncertainties described under the heading “Risk Factors” in Part II, Item 1A of this Quarterly Report. You should not place undue reliance on forward-looking statements. Forward-looking statements speak only as of the date they are made and, except as required by law, we undertake no obligation to revise or publicly update any forward-looking statement for any reason.

Overview

We are a national leader in the development, production and dispensing of innovative proprietary compounded pharmaceuticals that we make available to physicians and patients at affordable prices. Under our Imprimis Cares[®] program, we own, market and dispense a portfolio of lower-cost compounded alternatives to higher-priced FDA-approved drugs in several therapeutic areas, including ophthalmology, urology, dermatology and infectious diseases. We believe our proprietary formulations may offer competitive advantages and serve unmet needs in the marketplace. We plan to expand our Imprimis Cares program by introducing additional customizable compounded drug formulations in order to provide patients with access to alternatives to increasingly expensive FDA-approved medications. Our Imprimis Cares program aligns with our corporate mission, vision and values of providing physicians and their patients with high-quality individualized compounded medications at accessible prices.

Outside of the Imprimis Cares program, we also make and dispense a portfolio of non-proprietary compounded drugs in therapeutic areas that may be overlooked by commercial pharmaceutical companies. We offer customizable compounding products that consist of sterile injectable and non-sterile integrative medicine therapies that are used in various therapeutic areas, including oncology, autoimmunity, chronic infectious diseases and endocrine and metabolic diseases.

Our ImprimisRx compounding facilities, based in New Jersey, California, and Pennsylvania, through which we make, dispense and sell our proprietary compounded formulations and other non-proprietary products. All of our customized formulations are made in the United States of America.

All of our proprietary compounded formulations are born from the clinical experience of a network of inventors, including physician prescribers, clinical researchers and pharmacist formulators, who develop and prescribe customized medicines for individual patient needs. We pursue a development pathway for potential formulation candidates that involves working collaboratively with these inventors to identify and evaluate intellectual property related to the formulation, assess relevant markets for the formulation, and seek to validate the clinical experience relating to the formulation with the objective of investing in commercialization activities. Although our business is focused on a 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 \$70,749 at September 30, 2016. Our history of recurring losses, and uncertainties as to whether our operations will become profitable, raise substantial doubt about our ability to continue as a going concern. The condensed consolidated financial statements contained in this report do not include any adjustments related to the recoverability of assets or classifications of liabilities that might be necessary should the Company be unable to continue as a going concern. 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 compound and dispense these formulations through our ImprimisRx compounding 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 (“NJR”) and our California facility, which compound and dispense both sterile and non-sterile compounded drugs, as well as our Pennsylvania facility, which compounds and dispenses non-sterile drugs, are all licensed as pharmacies operating under Section 503A of the FDCA.

Imprimis Cares Platform

Ophthalmic Formulations

In 2013, we acquired intellectual property trademarked as SSP Technology[®], which relates to compounded formulations for the combination and administration of anti-inflammatory and anti-bacterial agents after the completion of an ocular surgery. SSP Technology allows for increased solubility of active pharmaceutical ingredients and the creation of small, uniform particle sizes, which enables these compounded formulations to be used as an intraoperative injectable or as a topical eye drop. Since the acquisition of our SSP Technology, we have continued the development of the platform to include additional active pharmaceutical ingredients, such as NSAIDs.

Our Dropless[®] Therapy formulations are available in single, injectable intraocular doses administered following ocular surgery. Ophthalmologists have reported that use of our Dropless Therapy formulations 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 these formulations 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 patients receiving Dropless Therapy following cataract surgery that nearly 92 percent of the cases, supplemental medication following surgery was not required.

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 laser refractive surgery, including LASIK and photorefractive keratectomy (PRK), cataract and other ocular surgeries. We estimate that our LessDrops combination topical formulations may require the administration of up to 50% fewer drops by patients post-surgery and may cost up to 75% less than other currently available post-surgery eye drop regimens. We plan to expand our portfolio of LessDrops topical formulations to provide additional eye drop choices for our ophthalmologist customers. Over 1,000 ophthalmologists have adopted our LessDrops and Dropless Therapy formulations and a growing number of high-volume cataract surgery practices, hospitals and ambulatory surgery centers throughout the U.S. have become customers.

In May 2016, we launched our patent-pending IV Free MKO Melt[™] compounded conscious sedation formulation. The MKO Melt is administered sublingually to sedate patients undergoing ocular surgeries and may have uses for other surgical procedures outside of ophthalmology. In October 2015, we acquired the assets of a leading U.S. provider of topical compounded sinus formulations, delivery systems and patented packaging. Our topical delivery platform delivers sinusitis medications locally to the sinonasal mucosa, which is typically the direct site and probable source of the problem. We also offer formulations for patients suffering from interstitial cystitis, also known as painful bladder syndrome.

Other Imprimis Cares Formulations

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 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 May 2016, we introduced our patent-pending tiopronin delayed-release compounded formulations that may be prescribed by physicians as a lower-cost alternative to FDA-approved Thiola[®] for cystinuria patients. We also offer delayed-release formulations of tiopronin, the active drug ingredient in Thiola and potassium citrate, which is commonly prescribed and taken separately as an alkalizing agent. Cystinuria is an inherited disease that causes stones made of the amino acid cystine to form in the kidneys, bladder and/or urethra.

In September 2016, we announced the availability of our EDTA calcium disodium injectable formulation, a lower-cost compounded alternative to FDA-approved Calcium Disodium Versenate, commonly used to stabilize and treat patients exposed to lead poisoning. We also offer proprietary formulations under our Imprimis Cares platform commonly prescribed by dermatologists. We intend to expand our Imprimis Cares portfolio and launch new formulations over the next twelve months within other therapeutic areas.

Non-proprietary Compounded Formulations

Our portfolio of non-proprietary compounded medications includes sterile injectable and non-sterile integrative therapies in therapeutic areas that may be overlooked by commercial pharmaceutical companies, such as oncology, autoimmunity, chronic infectious diseases, and endocrine and metabolic diseases. We also offer customizable hormone replacement therapies and a variety of weight loss and dermatology compounded formulations. Many of these formulations are offered in different formats than other available alternatives, such as in suspension or lyophilized, which we believe may provide differentiating and potentially beneficial factors as compared to competing therapies.

Customer Relationships

A growing number of physicians, hospitals, ambulatory surgery centers and pharmacy benefits managers are now accessing our Imprimis Cares formulary. 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 hospitals, ambulatory surgery centers and other healthcare facilities located across the United States. Pursuant to the terms of the agreement, Imprimis will provide AmSurg with compounded pharmaceutical products from its core ophthalmic formulation lines including it Dropless[®] injectables and LessDrops[®] topical compounded formulations.

In October 2016, we entered into a purchase and supply agreement the specialty pharmacy division of a leading pharmacy care services company, connecting more than 65 million Americans to improved care, lower costs and a better health care experience. Pursuant to the terms of the agreement, Imprimis will provide the specialty pharmacy with compounded pharmaceutical products from its Imprimis Cares formulary of low-cost compounded therapeutic alternatives. We expect this agreement will help accelerate the adoption of several compounded alternative offerings that we currently offer and others we expect to launch in 2017.

Compounding Facilities

One of our key strategies is the use of compounding pharmacies to formulate our proprietary compounded drug formulations and distribute them to physicians and patients. Generally, compounding pharmacies combine different ingredients, most of which may be FDA-approved, to create specialized preparations prescribed by a physician to treat an individually identified patient. Often this is 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 are approximately \$5,058, of which, we have paid approximately \$4,936 as of September 30, 2016. We have also begun to improve our California based pharmacy. We expect to invest approximately \$550 to make the improvements and add capacity to the pharmacy, of which we have paid approximately \$403. We expect the improvement of our California pharmacy will be completed in November 2016.

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. We are currently in the process of winding down those operations entirely, and intend to have ceased all operations at our Texas facility by the end of 2016.

Factors Affecting Our Performance

We believe the primary factors affecting our performance are our ability to increase sales 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. 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, we are in the process of developing and registering our New Jersey facility as an outsourcing facility. We are working to expand our pharmacy operations and personnel and develop our facilities into a unified compounding pharmacy network. For instance, we have begun developing “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 implementing 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 conceivably 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 have engaged distributors for certain of our proprietary compounded formulations in certain non-U.S. markets and have out-licensed certain of our technology in international markets, such as Canada, we expect to continue to focus our efforts on our U.S. commercial opportunities during 2016. Our sales and marketing efforts are currently organized into two departments, one of which focuses on our ophthalmology formulations and the other of which focuses on our available formulations in other therapeutic areas. We have also begun to establish a sales and marketing team focused 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 recent 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 to date that are important to understand our financial condition and results of operations. See the notes to our condensed consolidated financial statements included in this report for additional information about each of these developments. Dollar amounts are expressed in thousands.

Asset Impairment and Insurance Claim - Texas

In June 2016, our Texas based facility was damaged related to a malfunction with the property's sprinkler system.

We commenced restoration efforts and filed claims for damages under its 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 begun transferring equipment and certain improvements in our Texas facility to our other compounding facilities and we believe all operations at our Texas facility will be 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 nine months ended September 30, 2016.

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. The lease term may be extended for an additional twelve (12) month period in the event we achieve certain financial milestones. 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 are used the net proceeds from the offering for working capital and general corporate purchases.

On November 27, 2015, we entered into a Controlled Equity OfferingSM 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 48,642 shares of common stock and received net proceeds of \$195, after deducting sales commission and offering expenses, under the Sales Agreement during the nine months ended September 30, 2016, leaving an aggregate of \$1,872 available for future sales of shares thereunder as of November 11, 2016.

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 IMMY Funding LLC (LSAF), an affiliate of Life Sciences Alternative Funding LLC. We are 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 are obligated to repay the full principal amount of the Convertible Note in cash on May 11, 2021. The Convertible Note is 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.

On May 11, 2015, we entered into a loan agreement with LSAF, pursuant to which we have received a term loan in the principal amount of \$10,000 (the "LSAF Loan"). The LSAF Loan bears interest at a fixed per-annum rate of 12.5% and we are permitted to pay interest only for the first three years or, if we do not meet certain minimum revenue or cash balance requirements, the first 20 months. The LSAF Loan, plus a final fee of 5% of the aggregate principal amount of the LSAF Loan, will be due on the earlier of May 11, 2021 or 24 months after the end of the interest-only period. As of September 30, 2016, our interest payment obligations to date relating to the LSAF Loan totaled approximately \$1,212; we expect our interest payment obligations relating to the LSAF Loan and the Convertible Note to collectively total \$1,303 in 2016.

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.

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. In particular, we acquired or opened three pharmacies during the calendar 2015 year, results of operations in the periods after commencement of these additional pharmacies, including aggregate revenue and expense amounts and the apportionment of expenses among categories, have changed and are expected to continue to change as we further develop these operations. Further, as a result of our acquisitions of our ImprimisRx compounding pharmacies, and any additional pharmacy acquisitions or other such transactions we may pursue, we may experience large expenditures specific to the transactions that are not incident to our operations. Dollar amounts are expressed in thousands (except share and per share data).

Comparison of three and nine months ended September 30, 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 three and nine months ended September 30, 2016 and 2015:

	Three months ended September 30,			For the Nine Months Ended September 30,			\$ Variance
	2016	2015	Variance	2016	2015	Variance	
Sales, net	\$ 4,858	\$ 2,682	\$ 2,176	\$ 14,141	\$ 6,161	\$ 7,980	
License revenues	3	1	2	8	52	(44)	
Total revenues	\$ 4,861	\$ 2,683	\$ 2,178	\$ 14,149	\$ 6,213	\$ 7,936	

The increase in revenue between periods was mostly attributable to increased sales of our proprietary formulations and introduction of new proprietary formulations throughout calendar 2015, including our LessDrops formulations and urology based formulations. Our ophthalmology related revenues attributed approximately \$3,032 and \$7,437 during the three and nine months ended September 30, 2016, compared to \$857 and \$1,790 during the same periods 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 three and nine months ended September 30, 2016 and 2015:

	Three months ended			For the Nine Months Ended		
	September 30,		\$	September 30,		\$
	2016	2015		Variance	2016	
Cost of sales	<u>\$ 2,339</u>	<u>\$ 1,202</u>	<u>\$ 1,137</u>	<u>\$ 6,760</u>	<u>\$ 3,259</u>	<u>\$ 3,501</u>

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. 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 also resulted in an increase in cost of sales during the three months ended September 30, 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 three and nine months ended September 30, 2016 and 2015:

	Three months ended			For the Nine Months Ended		
	September 30,		\$	September 30,		\$
	2016	2015		Variance	2016	
Selling and marketing	<u>\$ 1,797</u>	<u>\$ 1,813</u>	<u>\$ (16)</u>	<u>\$ 5,967</u>	<u>\$ 4,455</u>	<u>\$ 1,512</u>

The increase in selling and marketing expenses during the nine months ended September 30, 2016 and 2015, 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 three and nine months ended September 30, 2016 and 2015:

	Three months ended			For the Nine Months Ended		
	September 30,		\$	September 30,		\$
	2016	2015		Variance	2016	
General and administrative	\$ 5,018	\$ 3,104	\$ 1,914	\$ 13,355	\$ 8,327	\$ 5,028

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 facilities operations during the three and nine months ended September 30, 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 three and nine months ended September 30, 2016 and 2015:

	Three months ended			For the Nine Months Ended		
	September 30,		\$	September 30,		\$
	2016	2015		Variance	2016	
Research and development	\$ 16	\$ 93	\$ (77)	\$ 138	\$ 299	\$ (161)

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.

Impairment of Intangible Assets and Goodwill

As more fully described in Note 2 to the Condensed 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 Condensed Consolidated Statement of Operations during the three and nine months ended September 30, 2016.

Other Income

We recorded other income of \$1,494 during the three and nine months ended September 30, 2016, related to proceeds from our insurance claim in Texas and settlement with Urigen Pharmaceuticals, Inc. In May 2016, we paid the contingent acquisition obligation for Pharmacy Creations, LLC and recorded a gain of \$0 and \$81 during the three and nine months ended September 30, 2016, respectively.

Interest Income

Interest income was \$1 and \$9 for the three and nine months ended September 30, 2016, respectively, compared to \$5 and \$11 for the same periods in the prior year.

Interest Expense

Interest expense was \$733 and \$2,001 for the three and nine months ended September 30, 2016, respectively, compared to \$428 and \$690 for the same periods in the prior year, respectively. 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.

Net Loss

Net loss for the three and nine months ended September 30, 2016 was \$(3,850) and \$(12,985), or \$(0.29) and \$(1.05) basic and diluted net loss per share, respectively, compared to a net loss for the same periods in the prior year of \$(3,952) and \$(10,775), or \$(0.41) and \$(1.13), basic and diluted net loss per share, respectively.

Liquidity and Capital Resources

Liquidity

Our cash on hand at September 30, 2016 was \$2,362, compared to \$2,685 at December 31, 2015.

As of the date of this Quarterly Report, we believe that cash and cash equivalents and restricted cash and investments of approximately \$2,812 at September 30, 2016, and the expected future revenues and insurance payment of \$841, will be not be sufficient to sustain our planned level of operations and capital expenditures for at least the next 12 months. We intend to secure additional working capital through sales of additional equity and debt securities to finance our operations. 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 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 in excess of what we currently expect is needed 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 expanding our compounding operations, including capital expenditures related to construction efforts to improve our California and Pennsylvania pharmacies, 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 will 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 million annually without impacting the company's growth plans.

Net Cash Flow

The following provides detailed information about our net cash flows for the nine months ended September 30, 2016 and 2015:

	For the Nine Months Ended September 30, 2016	For the Nine Months Ended September 30, 2015
Net cash used in operating activities	\$ (8,977)	\$ (7,842)
Net cash used in investing activities	(7,125)	(4,259)
Net cash provided by (used in) financing activities	15,779	10,446
Net change in cash and cash equivalents	(323)	(1,655)
Cash and cash equivalents at beginning of the period	2,685	8,211
Cash and cash equivalents at end of the year	<u>\$ 2,362</u>	<u>\$ 6,556</u>

Operating Activities

Net cash used in operating activities for the nine months ended September 30, 2016 was \$(8,977), as compared to \$(7,842) used in operating activities during the same period in the prior year. The net cash used in operating activities was mainly attributed to expanding our operations, including hiring additional personnel, commercialization and marketing activities related to our proprietary formulations, prescription fulfillment activities and other related undertakings.

Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2016 and 2015 was \$(7,125) and \$(4,259), respectively. Cash used in investing activities in 2016 was primarily related to construction efforts and equipment purchases for our New Jersey and Texas facilities. Cash used in investing activities in 2015 was primarily related to our acquisition of Park.

Financing Activities

Net cash provided by financing activities for the nine months ended September 30, 2016 and 2015 was \$15,779 and \$10,446, respectively. Cash provided by financing activities in 2016 was primarily attributable to proceeds received in January 2016 from the LSAF Convertible Note and proceeds received from the underwritten public offering and sale of shares of common stock in March 2016. The cash provided by financing activities during the nine months ended September 30, 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; and (c) gross proceeds of \$2,000 from our sale and leaseback of certain equipment in August 2016. We also obtained capital from insurance proceeds related to business interruption and property loss of our Texas facility of \$841 in November 2016 and from ongoing product and formulation sales. We do not currently receive sufficient revenues to support our operations. Our history of recurring losses, and uncertainties as to whether our operations will become profitable, raise substantial doubt about our ability to continue as a going concern. The condensed consolidated financial statements contained in this report do not include any adjustments related to the recoverability of assets or classifications of liabilities that might be necessary should the Company be unable to continue as a going concern. We have yet to generate positive cash flows from operations, and are essentially dependent on debt and equity funding to finance our operations.

We will need significant additional capital to support our business plan and fund our proposed business operations. We are eligible to receive \$1,872 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 Convertible 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.

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.

Critical Accounting Policies

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.

For the nine months ended September 30, 2016, there were no other material changes to the “Critical Accounting Policies” discussed in Part II, Item 7 (Management’s Discussion and Analysis of Financial Condition and Results of Operations) of our 2015 10-K.

Recently Issued and Adopted Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Under the supervision and with the participation of our principal executive officer and principal financial officer, our management conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act, as they existed on September 30, 2016. Based on this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective to achieve their stated purpose as of September 30, 2016, the end of the period covered by this report.

Changes in Internal Controls over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during our quarter ended September 30, 2016, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

We recently settled pending litigation and disputes with to Urigen, et. al, and with Corwin, Kammer, et. al. These matters and settlements are more fully described in the footnotes (Note 12) to our Condensed Consolidated Financial Statements. We are not aware of any pending legal proceedings to which we are a party or of which any of our property is subject the adverse outcome of which, individually or in the aggregate, is likely to have a material adverse effect on our financial position or results of operations.

Item 1A. Risk Factors

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

Risks Related to Our Business

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

We have incurred losses in every year of our operations, including net losses of \$(15,899) and \$(10,118) for the years ended December 31, 2015 and 2014, respectively. We continue to have losses in the current quarter aggregating \$(3,850) and \$(12,985) for the three and nine months ended September 30, 2016. As of September 30, 2016, our accumulated deficit was \$(70,749). A substantial amount of the accumulated deficit was the result of our now-abandoned activities to obtain FDA approval of a drug candidate. We expect to 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 a network of unified 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 through our network. Although we have established and plan to grow our internal sales teams to market and sell our proprietary formulations and other non-proprietary products through our network, 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 other pharmacies or prescription dispensing facilities we acquire or develop and 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 aim to 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 begun developing “ImprimisRx” as a uniform brand for our compounding facilities and plan to bring 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 our 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 our acquisitions of our ImprimisRx compounding pharmacies or any additional pharmacy businesses or outsourcing facilities we seek to acquire or build in the future;
- we may not be able to satisfy applicable federal and state licensing and other requirements for any such 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 such efforts to expand our 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 conceivably 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 Texas and New Jersey-based pharmacy facilities into outsourcing facilities and registering them as such with the FDA. We have limited experience operating a pharmacy business and commercializing compounded formulations, and we may not accurately estimate expenses and potential revenue associated with these activities. 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 our acquisitions of our ImprimisRx 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.

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 presently 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 \$26,000 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 approved, 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 18 utility and eight provisional patent applications, and we own three 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 countries.

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 be 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 August 12, 2016, approximately 15% of our common stock that would be outstanding following such issuances. In addition, five individual stockholders collectively own, or have the right to acquire within 60 days after November 11, 2016, an additional approximately 34% 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 2015 Annual Report, our management concluded that our internal controls over financial reporting were effective as of December 31, 2015. 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, such as those agreed to in connection with our March 2016 public offering, upon our issuance of shares upon the exercise of outstanding options or warrants, or upon our issuance of shares pursuant to offerings of our equity securities, such as the pursuant to our March 2016 public offering or our Controlled Equity OfferingTM sales agreement with Cantor Fitzgerald & Co. The availability for sale of a substantial number of shares of our common stock, whether or not sales have occurred or are occurring, also could make it more difficult for us to raise additional financing through the sale of equity or equity-related securities in the future when needed, on acceptable terms or at all.

Item 2. Unregistered Sales of Equity Securities

None.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
10.1	Commercial Lease Agreement dated August 9, 2016 between Imprimis Pharmaceuticals, Inc. and Essex Capital 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 April 11, 2016)
31.1*	Certification of Mark L. Baum, principal executive officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes- Oxley Act of 2002.
31.2*	Certification of Andrew R. Boll, principal financial and accounting officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes- Oxley Act of 2002.
32.1**	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Mark L. Baum, principal executive officer, and Andrew R. Boll, principal financial and accounting officer.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

Dated: November 14, 2016

Imprimis Pharmaceuticals, Inc.

By: /s/ Mark L. Baum

Mark L. Baum
Chief Executive Officer and Director
(Principal Executive Officer)

By: /s/ Andrew R. Boll

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

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

I, Mark L. Baum, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of Imprimis Pharmaceuticals, Inc.;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in the report any change in this registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2016

/s/ Mark L. Baum

Mark L. Baum
Chief Executive Officer
Principal Executive Officer

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

I, Andrew R. Boll, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of Imprimis Pharmaceuticals, Inc.;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in the report any change in this registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2016

/s/ Andrew R. Boll

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

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned hereby certifies in his capacity as the specified officer of Imprimis Pharmaceuticals, Inc. (the "Company"), that, to the best of his knowledge, the Quarterly Report of the Company on Form 10-Q for the fiscal quarter ended September 30, 2016 fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods presented in the financial statements included in such report.

Date: November 14, 2016

/s/ Mark L. Baum

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

Date: November 14, 2016

/s/ Andrew R. Boll

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

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