

PROVECTUS BIOPHARMACEUTICALS, INC.

Form 10-Q

November 05, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

.. **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 001-36457

PROVECTUS BIOPHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of	90-0031917 (I.R.S. Employer
incorporation or organization)	Identification No.)
7327 Oak Ridge Highway, Suite A,	
Knoxville, Tennessee	37931
(Address of principal executive offices)	(Zip Code)
866-594-5999	
(Registrant's telephone number, including area code)	

N/A

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

The number of shares outstanding of the registrant's common stock, par value \$.001 per share, as of September 30, 2015, was 204,637,136.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements as defined under U.S. federal securities laws. These statements reflect management's current knowledge, assumptions, beliefs, estimates, and expectations and express management's current views of future performance, results, and trends and may be identified by their use of terms such as anticipate, believe, could, estimate, expect, intend, may, plan, predict, project, will, or similar terms. Forward-looking statements are subject to a number of risks and uncertainties that could cause our actual results to differ materially from those described in the forward-looking statements. Readers should not place undue reliance on forward-looking statements. Such statements are made as of the date of this Quarterly Report on Form 10-Q, and we undertake no obligation to update such statements after this date.

Risks and uncertainties that could cause our actual results to materially differ from those described in forward-looking statements include those discussed in our filings with the Securities and Exchange Commission (including those described in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014 and elsewhere in this Quarterly Report on Form 10-Q), and the following:

our determination, based on guidance from the FDA, whether to proceed with or without a partner with the fully enrolled phase 3 trial of PV-10 to treat locally advanced cutaneous melanoma and the costs associated with such a trial if it is necessary to complete (versus interim data alone);

our determination whether to license PV-10, our investigational drug product for melanoma and other solid tumors such as cancers of the liver, if such licensure is appropriate considering the timing and structure of such a license, or to commercialize PV-10 on our own to treat melanoma and other solid tumors such as cancers of the liver;

our ability to license PH-10, our investigational drug product for dermatology, on the basis of our phase 2 atopic dermatitis and psoriasis results, which are in the process of being further developed in conjunction with mechanism of action studies; and

our ability to raise additional capital if we determine to commercialize PV-10 and/or PH-10 on our own, although our expectation is to be acquired by a prospective pharmaceutical or biotech concern prior to commercialization.

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PROVECTUS BIOPHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2015 (Unaudited)	December 31, 2014 (Audited)
Assets		
Current Assets		
Cash and cash equivalents	\$ 18,883,662	\$ 17,391,601
Short-term receivable - settlement		733,333
Other current assets	1,065,956	978,000
Total Current Assets	19,949,618	19,102,934
Equipment and furnishings, less accumulated depreciation of \$447,532 and \$437,863, respectively	88,641	92,171
Patents, net of amortization of \$8,635,077 and \$8,131,737, respectively	3,080,368	3,583,708
Long-term receivable - settlement, net of discount	3,458,450	3,378,345
Other assets	27,000	27,000
	\$ 26,604,077	\$ 26,184,158
Liabilities and Stockholders Equity		
Current Liabilities		
Accounts payable - trade	\$ 972,693	\$ 440,702
Accrued consulting expense	227,582	91,282
Accrued compensation	572,436	
Other accrued expenses	292,356	315,738
Warrant liability	9,573	
Total Current Liabilities	2,074,640	847,722
Long-Term Liability		
Warrant liability		146,560
Total Liabilities	2,074,640	994,282
Stockholders Equity		
Preferred stock; par value \$.001 per share; 25,000,000 shares authorized; no shares outstanding as of September 30, 2015 and December 31, 2014		
Common stock; par value \$.001 per share; 300,000,000 authorized; 204,637,136 and 184,796,275 shares issued and outstanding,	204,637	184,796

respectively		
Paid-in capital	195,468,719	181,298,890
Accumulated deficit	(171,143,919)	(156,293,810)
Total Stockholders' Equity	24,529,437	25,189,876
	\$ 26,604,077	\$ 26,184,158

See accompanying notes to condensed consolidated financial statements.

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PROTECTUS BIOPHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Operating expenses				
Research and development	\$ 2,696,551	\$ 1,358,102	\$ 7,034,100	\$ 3,541,520
General and administrative	2,914,375	2,299,799	7,453,401	8,322,312
Amortization	167,780	167,780	503,340	503,340
Total operating loss	(5,778,706)	(3,825,681)	(14,990,841)	(12,367,172)
Investment income	1,260	1,410	3,745	4,226
(Loss) gain on change in fair value of warrant liability	(2,607)	75,724	136,987	1,303,716
Net loss	\$ (5,780,053)	\$ (3,748,547)	\$ (14,850,109)	\$ (11,059,230)
Basic and diluted loss per common share	\$ (0.03)	\$ (0.02)	\$ (0.08)	\$ (0.06)
Weighted average number of common shares outstanding basic and diluted	204,610,080	179,088,989	192,604,128	173,729,010

See accompanying notes to condensed consolidated financial statements.

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PROVECTUS BIOPHARMACEUTICALS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Unaudited)

	Common Stock				
	Number of	Par Value	Paid in	Accumulated	Total
	Shares		capital	Deficit	
Balance, at December 31, 2014	184,796,275	\$ 184,796	\$ 181,298,890	\$ (156,293,810)	\$ 25,189,876
Issuance of stock for services	228,877	229	165,210		165,439
Issuance of warrants for services			79,476		79,476
Cash proceeds from exercise of warrants and stock options	324,884	325	290,503		290,828
Issuance of common stock and warrants pursuant to Regulation D	1,787,100	1,787	1,552,990		1,554,777
Issuance of common stock and warrants pursuant to underwritten registered public offering	17,500,000	17,500	12,081,650		12,099,150
Net loss for the nine months ended September 30, 2015				(14,850,109)	(14,850,109)
Balance, at September 30, 2015	204,637,136	\$ 204,637	\$ 195,468,719	\$ (171,143,919)	\$ 24,529,437

See accompanying notes to condensed consolidated financial statements.

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PROVECTUS BIOPHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited)

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Cash Flows From Operating Activities		
Net loss	\$ (14,850,109)	\$ (11,059,230)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	9,669	5,148
Amortization of patents	503,340	503,340
Compensation through issuance of stock options		115,645
Issuance of stock for services	165,439	346,250
Issuance of warrants for services	79,476	1,354,508
Gain on change in fair value of warrant liability	(136,987)	(1,303,716)
(Increase) decrease in assets		
Settlement receivable	653,228	
Other current assets	(87,956)	
Increase in liabilities		
Accounts payable	531,991	129,331
Accrued expenses	685,354	238,784
Net cash used in operating activities	(12,446,555)	(9,669,940)
Cash Flows From Investing Activities		
Capital expenditures	(6,139)	(70,590)
Net cash provided by investing activities	(6,139)	(70,590)
Cash Flows From Financing Activities		
Net proceeds from sales of common stock and warrants	13,653,927	7,470,081
Proceeds from exercises of warrants and stock options	290,828	4,347,886
Net cash provided by financing activities	13,944,755	11,817,967
Net change in cash and cash equivalents	\$ 1,492,061	\$ 2,077,437
Cash and cash equivalents, at beginning of period	17,391,601	15,696,243
Cash and cash equivalents, at end of period	\$ 18,883,662	\$ 17,773,680

Supplemental Disclosure of Noncash Investing and Financing Activities:

During the nine months ended September 30, 2014, the Company has reclassified \$10,335,619 from warrant liability to equity due to the exercise of a portion of our outstanding warrants into shares of common stock.

See accompanying notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information pursuant to Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. The Company has evaluated subsequent events through the date the condensed consolidated financial statements were issued.

2. Nature of Operations

Provectus Biopharmaceuticals, Inc., a Delaware corporation, is a biopharmaceutical company whose planned principal operations is focusing on developing minimally invasive products for the treatment of psoriasis and other topical diseases, and certain forms of cancer including melanoma, breast cancer, and cancers of the liver. To date, the Company has no revenues from planned principal operations. The Company's activities are subject to significant risks and uncertainties, including failing to successfully develop and license or commercialize the Company's investigational drugs, or sell or license the Company's OTC products or non-core technologies.

3. Basic and Diluted Loss Per Common Share

Basic and diluted loss per common share is computed based on the weighted average number of common shares outstanding. Loss per share excludes the impact of outstanding options and warrants as they are antidilutive. Potential common shares excluded from the calculation at September 30, 2015 and 2014, respectively, relate to 78,607,893 and 60,240,698 from warrants, and 9,545,214 and 13,868,334 from options.

4. Equity Transactions

(a) During the three months ended March 31, 2015, the Company issued 75,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$64,000. During the three months ended March 31, 2014, the Company issued 75,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$137,500.

During the three months ended June 30, 2015, the Company issued 75,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$63,000. During the three months ended June 30, 2014, the Company issued 75,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$140,250.

During the three months ended September 30, 2015, the Company issued 78,877 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$38,439. During the three months ended September 30, 2014, the Company issued 75,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$68,500.

(b) During the three months ended March 31, 2015, the Company issued 3,000 fully vested warrants to consultants in exchange for services. Consulting costs charged to operations were \$1,632. During the three months ended March 31, 2015, 3,693,898 warrants were forfeited. During the three months ended March 31, 2014, the Company issued 733,000 fully vested warrants to consultants in exchange for services. Consulting costs charged to operations were \$900,317. During the three months ended March 31, 2014, 121,500 warrants were forfeited. During the three months ended March 31, 2014, 12,522,198 warrants were exercised on a cashless basis resulting in 9,100,824 common shares being issued. During the three months ended March 31, 2014, 3,036,218 warrants were exercised for \$2,672,364 resulting in 3,036,218 common shares issued.

During the three months ended June 30, 2015, the Company issued 100,000 fully vested warrants to consultants in exchange for services. Consulting costs charged to operations were \$53,582. During the three months ended June 30, 2015, 1,161,790 warrants were forfeited. During the three months ended June 30, 2014, the Company issued 202,000 fully vested warrants to consultants in exchange for services. Consulting costs charged to operations were \$450,002. During the three months ended June 30, 2014, 315,000 warrants were forfeited. During the three months ended June 30, 2014, 1,594,082 warrants were exercised on a cashless basis resulting in 915,467 common shares being issued. During the three months ended June 30, 2014, 372,000 warrants were exercised for \$372,000 resulting in 372,000 common shares issued.

During the three months ended September 30, 2015, the Company issued 79,500 fully vested warrants to consultants in exchange for services. Consulting costs charged to operations were \$24,262. During the three months ended September 30, 2015, 1,152,135

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warrants were forfeited. During the three months ended September 30, 2014, the Company issued 6,000 fully vested warrants to consultants in exchange for services. Consulting costs charged to operations were \$4,189. During the three months ended September 30, 2014, 228,500 warrants were forfeited.

As the fair market value of these services was not readily determinable, these services were valued based on the fair market value of the warrants, determined using the Black-Scholes option-pricing model.

(c) The Company determined that warrants issued January 13, 2011 and referred to as Series A Warrants and Series C Warrants should be classified as liabilities in accordance with ASC 815 because the warrants in question contain exercise price reset features that require the exercise price of the warrants be adjusted if the Company issues certain other equity related instruments at a lower price per share. The value of the warrant liability was determined based on the Monte-Carlo Simulation model at the date the warrants were issued. The warrant liability is then revalued at each subsequent quarter. For the three months ended March 31, 2015, there was a gain recognized from the revaluation of the warrant liability of \$14,275. For the three months ended March 31, 2014, there was a loss recognized from the revaluation of the warrant liability of \$1,153,835. For the three months ended June 30, 2015 and 2014, there was a gain recognized from the revaluation of the warrant liability of \$45,568 and \$186,262, respectively. For the three months ended September 30, 2015 and 2014, there was a loss recognized from the revaluation of the warrant liability of \$2,607 and \$16,734, respectively.

(d) In March and April 2010, the Company issued 8% Convertible Preferred Stock with warrants. The Company determined that warrants issued with the 8% Convertible Preferred Stock should be classified as liabilities in accordance with ASC 815 because the warrants in question contain exercise price reset features that require the exercise price of the warrants be adjusted if the Company issues certain other equity related instruments at a lower price per share. The value of the warrant liability was determined based on the Monte-Carlo Simulation model at the date the warrants were issued. The warrant liability is then revalued at each subsequent quarter. For the three months ended March 31, 2015, there was a gain recognized from the revaluation of the warrant liability of \$79,751. For the three months ended March 31, 2014, there was a loss recognized from the revaluation of the warrant liability of \$211,422. During the three months ended March 31, 2015, the remaining warrants included in the warrant liability were forfeited. There were no outstanding 2010 warrants at March 31, 2015 and therefore there is no gain or loss for the three months ended June 30, 2015 or the three months ended September 30, 2015. For the three months ended June 30, 2014, there was a gain recognized from the revaluation of the warrant liability of \$3,285,793. For the three months ended September 30, 2014, there was a gain recognized from the revaluation of the warrant liability of \$92,458.

(e) In February 2013, the Company issued Series A 8% Convertible Preferred Stock with warrants. The Company determined that warrants issued with the Series A 8% Convertible Preferred Stock should be classified as liabilities in accordance with ASC 815 because the warrants in question contain exercise price reset features that require the exercise price of the warrants be adjusted if the Company issues certain other equity related instruments at a lower price per share. The preferred stock was determined to have characteristics more akin to equity than debt. As a result, the conversion option was determined to be clearly and closely related to the preferred stock and therefore does not need to be bifurcated and classified as a liability. The proceeds received from the issuance of the preferred stock were first allocated to the fair value of the warrants with the remainder allocated to the preferred stock. The fair value of the preferred stock if converted on the date of issuance was greater than the value allocated to the preferred stock. As a result, a beneficial conversion amount was recorded upon issuance. The value of the warrant liability was determined based on the Monte-Carlo Simulation model at the date the warrants were issued. The warrant liability is then revalued at each subsequent quarter. There were no outstanding 2013 warrants at December 31, 2014 and therefore there is no gain or loss for the three months ended March 31, 2015, the three months ended June 30, 2015, or the three months ended September 30, 2015. For the three months ended March 31, 2014, there was a loss recognized from the

revaluation of the warrant liability of \$921,776. For the three months ended June 30, 2014, there was a gain recognized from the revaluation of the warrant liability of \$42,970. There were no outstanding 2013 warrants at June 30, 2014 and therefore there was no gain or loss for the three months ended September 30, 2014.

(f) In January 2014, there were 33,334 shares of the Company's Series A 8% Convertible Preferred Stock that converted into 33,334 shares of the Company's common stock. As of January 15, 2014, there were no shares of Series A 8% Convertible Preferred Stock outstanding. In 2014, the Company recognized no dividends because of the conversion of all outstanding shares of preferred stock to common stock as of January 15, 2014.

(g) During the three months ended March 31, 2015, the Company completed a private offering of common stock and warrants to accredited investors for gross proceeds of \$776,000. The Company received subscriptions, in the aggregate, for 776,000 shares of common stock and five year warrants to purchase 388,000 shares of common stock. Investors received five year fully vested warrants to purchase up to 50% of the number of shares purchased by the investors in the offering. The warrants have an exercise price of \$1.25 per share. The purchase price for each share of common stock together with the warrants is \$1.00. The Company plans to use the proceeds for working capital and other general corporate purposes. Network 1 Financial Securities, Inc. served as placement agent for the offering. In connection with the offering, the Company paid \$100,880 and issued five year fully vested warrants to purchase 77,600 shares of common stock with an exercise price of \$1.25 to Network 1 Financial Securities, Inc., which represents 10% of the

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total number of shares of common stock subscribed for by investors solicited by Network 1 Financial Securities, Inc. During the three months ended June 30, 2015, the Company completed a private offering of common stock and warrants to accredited investors for gross proceeds of \$1,011,100. The Company received subscriptions, in the aggregate, for 1,011,100 shares of common stock and five year warrants to purchase 505,550 shares of common stock. Investors received five year fully vested warrants to purchase up to 50% of the number of shares purchased by the investors in the offering. The warrants have an exercise price of \$1.25 per share. The purchase price for each share of common stock together with the warrants is \$1.00. The Company plans to use the proceeds for working capital and other general corporate purposes. Network 1 Financial Securities, Inc. served as placement agent for the offering. In connection with the offering, the Company paid \$131,443 and issued five year fully vested warrants to purchase 101,110 shares of common stock with an exercise price of \$1.25 to Network 1 Financial Securities, Inc., which represents 10% of the total number of shares of common stock subscribed for by investors solicited by Network 1 Financial Securities, Inc.

(h) On June 24, 2015, the Company completed a public offering of common stock and warrants for gross proceeds of \$13,151,250 (the Offering). The Offering consisted of 17,500,000 shares of common stock and warrants to purchase 17,500,000 shares of common stock with a public offering price of \$0.75 for a fixed combination of one share of common stock and a warrant to purchase one share of common stock. Investors received five year fully vested warrants to purchase up to 100% of the number of shares purchased by the investors in the Offering. The warrants have an exercise price of \$0.85 per share. At the closing, the underwriters exercised their over-allotment option with respect to warrants to purchase up to an additional 2,625,000 shares of common stock at \$0.01 per warrant. The warrants issued in the Offering began trading on the NYSE MKT on June 22, 2015, under the ticker symbol PVCTWS. The Company plans to use the proceeds of the Offering for clinical development, working capital and general corporate purposes. Maxim Group LLC acted as sole book-running manager for the Offering. In connection with the Offering, the Company paid \$1,052,100 to Maxim Group LLC. As of September 30, 2015, 20,125,000 tradable warrants are outstanding.

5. Stock-Based Compensation

One employee of the Company exercised 185,000 options at an exercise price of \$1.02 per share of common stock for \$188,700 during the three months ended March 31, 2015. Another employee of the Company exercised 76,764 options at an exercise price of \$0.64 per share of common stock for \$49,129 during the three months ended March 31, 2015. Another employee of the Company exercised 33,334 options at an exercise price of \$0.75 per share of common stock for \$25,000 and 29,786 options at an exercise price of \$0.94 per share of common stock for \$27,999 during the three months ended March 31, 2015. One employee of the Company forfeited 300,000 stock options on January 7, 2015. One employee of the Company exercised 25,000 options at an exercise price of \$0.95 per share of common stock for \$23,750, 14,248 options at an exercise price of \$0.75 per share of common stock for \$10,686 and 600,000 options at an exercise price of \$0.93 per share of common stock for \$558,000 during the three months ended March 31, 2014. Another employee of the Company exercised 300,000 options at an exercise price of \$1.10 per share of common stock for \$330,000 during the three months ended March 31, 2014. Another employee of the Company exercised 189,624 options at an exercise price of \$1.10 per share of common stock for \$208,586 during the three months ended March 31, 2014. One employee of the Company forfeited 300,000 stock options on February 26, 2014.

Two employees and a former non-employee member of the board of the Company each forfeited 25,000 stock options on May 19, 2015 for a total of 75,000 options. Two employees of the Company each forfeited 300,000 stock options on May 25, 2015 for a total of 600,000 options. One employee of the Company exercised 25,000 options at an exercise price of \$0.95 per share of common stock for \$23,750 during the three months ended June 30, 2014. Another employee of the Company exercised 100,000 options at an exercise price of \$1.25 per share of common stock for \$125,000 during the three months ended June 30, 2014. A former non-employee member of the board exercised

25,000 options at an exercise price of \$0.95 per share of common stock for \$23,750 during the three months ended June 30, 2014. One employee of the Company forfeited 25,000 stock options on May 27, 2014.

6. Fair Value of Financial Instruments

The FASB's authoritative guidance on fair value measurements establishes a framework for measuring fair value, and expands disclosure about fair value measurements. This guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Under this guidance, assets and liabilities carried at fair value must be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

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In determining the appropriate levels, the Company performs a detailed analysis of the assets and liabilities that are measured and reported on a fair value basis. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. The fair value of certain of the Company's financial instruments, including cash and cash equivalents and accounts payable, approximates the carrying value due to the relatively short maturity of such instruments. The fair value of derivative instruments is determined by management with the assistance of an independent third party valuation specialist. The warrant liability is a derivative instrument and is classified as Level 3. The Company used the Monte-Carlo Simulation model to estimate the fair value of the warrants. Significant assumptions used are as follows:

	September 30, 2015
2011 Warrants:	
Weighted average term	0.3 years
Probability the warrant exercise price would be reset	5%
Volatility	83.83%
Risk free interest rate	0.01%

At September 30, 2015 there are no remaining 2013 and 2010 warrants and, therefore, no associated warrant liability.

The warrant liability measured at fair value on a recurring basis is as follows:

	Total	Level 1	Level 2	Level 3
Derivative instruments:				
Warrant liability at September 30, 2015	\$ 9,573	\$	\$	\$ 9,573
Warrant liability at December 31, 2014	\$ 146,560	\$	\$	\$ 146,560

A reconciliation of the warranty liability measured at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) from January 1, 2015 to September 30, 2015 follows:

Balance at January 1, 2015	\$ 146,560
Issuance of warrants	
Change in fair value of warrants included in earnings	(136,987)
Exercise of warrants	
Balance at September 30, 2015	\$ 9,573

7. Litigation*Kleba Shareholder Derivative Lawsuit*

On January 2, 2013, Glenn Kleba, derivatively on behalf of the Company, filed a shareholder derivative complaint in the Circuit Court for the State of Tennessee, Knox County (the Court), against H. Craig Dees, Timothy C. Scott, Eric A. Wachter, and Peter R. Culpepper (collectively, the Executives), Stuart Fuchs, Kelly M. McMasters, and Alfred E. Smith, IV (collectively, together with the Executives, the Individual Defendants), and against the Company as a

nominal defendant (the Shareholder Derivative Lawsuit). The Shareholder Derivative Lawsuit alleged (i) breach of fiduciary duties, (ii) waste of corporate assets, and (iii) unjust enrichment, all three claims based on Mr. Kleba s allegations that the de