OptimizeRx Corp
Form 10-K
March 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2017**

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

For the transition period from _____ to _____

Commission file number: **000-53605**

OptimizeRx Corporation
(Exact name of registrant as specified in its charter)

Nevada	**26-1265381**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
400 Water Street, Ste. 200	
Rochester, MI	**48307**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number: **248-651-6568**

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Name of each exchange on which registered
none	**not applicable**

Securities registered under Section 12(g) of the Exchange Act:

Title of each class
Common Stock, par value of $0.001

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

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

Indicate by checkmark 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 (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes** **No**

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§232.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. **Yes** **No**

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

Large accelerated filer	**Accelerated filer**
Non-accelerated filer	**Smaller reporting company**
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. **$22,418,553**

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. 29,318,081 common shares as of February 28, 2018.

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PART I

Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995. Certain statements, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements." These forward-looking statements generally are identified by the words "believes," "project," "expects," "anticipates," "estimates," "intends," "strategy," "plan," "may," "v "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on our operations and future prospects on a consolidated basis include but are not limited to: changes in economic conditions, legislative/regulatory changes, availability of capital, interest rates, competition, and generally accepted accounting principles. These risks and uncertainties should also be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

Item 1. Business

Overview

We are a leading provider of digital health messaging via electronic health records (EHRs), providing a direct channel for pharmaceutical companies to communicate with healthcare providers. Our cloud-based solution supports patient adherence to medications by providing real-time access to financial assistance, prior authorization, education and critical clinical information. Our network is comprised of leading EHR platforms and provides more than half a million healthcare providers access to these benefits within their workflow at the point of care.

2017 Company Highlights

1) Net revenue increased 56% to a record $12.1 million in 2017 over 2016.

2) Net revenue was a record $4.0 million in Q4 2017, up 75% over Q4 2016.

3) Appointed health IT industry veteran, Miriam Paramore, as president to expand our electronic health records (EHR) network, add new solutions and drive scale in our business model.

4) Expanded our sales team and established a strong base which helped drive record revenues for Q3 and Q4 2017 with expected revenue growth in 2018 and beyond.

5) Acquired new pharmaceutical manufacturers and brands for our core offerings of Financial and Brand messaging for distribution through our expanding channel partners.

6) Continued growth through our success in acquiring, integrating and expanding into new promotional EHR/eRx platforms with a greater than 20% increase in reach to healthcare providers in 2017.

7) Proven investment returns from our pharmaceutical promotions, as determined by an independent analytics firm, with multiple pharmaceutical brands that differentiates our programs as one of the most effective digital tactics available to pharmaceutical firms.

8) Expanded our exclusive partnership with Allscripts Healthcare, which now includes real-time financial, informational, and clinical messaging to Allscripts ambulatory platforms.

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Pharmaceutical Sales and Marketing Updates

Our sales team continues to expand our business with existing clients and win new clients. We are focused on adding additional brands for existing clients, providing new solutions, expanding the utilization of our network for existing brands, and obtaining new clients.

Additionally, we expanded our service offerings:

Brand Messaging – We have successfully integrated our new platform with partners in 2017 and have launched initial programs. Additionally, we expect our exclusive partnership with Allscripts, which allows us to offer LogRx brand messaging and Infoscripts messaging, to accelerate revenue growth in this area.

Brand Support – We have designed a service to better insure that manufacturer brands are available in every ePrescribing platform available, and we have incorporated this to an overall program related to launch brands that include brand awareness messaging and financial messaging.

We also continued to ramp up our marketing efforts:

Spoke at Coupon and Co-Pay Off-set Strategies Conference.

Presented at multiple investor conferences in 2017, including: Noble Capital Markets' 13th Annual Investor Conference, 29th annual Roth Conference, 7th Annual LD Micro Invitational and 10th Annual LD Micro Main Event.

Lead kick-off panel, "A New Infrastructure for Healthcare," at Distributed: Health Conference.

Sponsored CBI's 4th Annual Bio/Pharma Forum on e-Rx and EHR as well as moderated a panel.

With the growth of both the number of our pharmaceutical brands and our distribution network, we expect our distribution of financial messages will continue to increase substantially in 2018.

Operational Update

In 2018, we plan to expand our existing network and increase physician utilization of our partner networks. We continue to work individually with our partners based on their particular situation, focusing on improving workflow and increasing coupon utilization by providers that have access, obtain access for those prescribers that currently do not have financial messaging access, and increase overall revenue derived from each channel. In addition to revenue growth provided by new brands and new network partners, we believe there is significant revenue growth potential within our existing brands by better utilizing our existing partner networks.

In 2015, we signed an agreement with Allscripts to become their exclusive provider of financial messaging and obtain access to their Touchworks EHR product that is used primarily by large ambulatory systems. Financial messaging activity commenced within the Touchworks platform late in Q1 2017 and ramped up gradually throughout the balance of the year. We expect activity to ramp more quickly in 2018, with significant growth generated by this channel in 2018. In addition, we launched five new EHRs in 2017 and we have three others launching in Q1 2018. We anticipate revenue from these channels to accelerate in 2018 and positively impact revenue.

Technology Updates

To support our growth, we have migrated our platform to Oracle database software. Our system can manage up to one million rules and return the appropriate content within one second. This ultra-fast response time helps avoid delays and supports our expectation for accelerated revenue growth. To further improve the efficiency of our system, we are in the process of moving our software to Amazon Web Services.

We have developed our own proprietary brand messaging system designed to expand our ability to deliver key clinical messages in addition to financial support, and we plan to integrate this within EHRs that currently do not offer this valued product to their providers. We launched this system in 2017 with one channel partner and expect to launch it with additional partners in 2018.

Summary

Despite the lengthy sales cycle involved in creating this new financial messaging market, we remain excited about our core financial messaging business. We expect to significantly accelerate revenue growth in 2018, driven by the launch of additional channels, brands and products. We also expect our active network to continue to grow substantially in 2018.

Principal Products and Applications

Our principal products and applications can be summarized as follows:

Financial Messaging – Our integrated financial messaging platform is a revolutionary virtual "Patient Support Center" that allows doctors and staff to access a universe of sample vouchers, co-pay coupons and other patient support through their EMR and/or e-Prescribe systems. It allows them to search, print or electronically dispense directly to patients and a national network of pharmacies. Our platform eliminates the need for physicians to manage and store physical drug samples by offering a more convenient and efficient way to allocate, administer and track samples and co-pay savings for their patients. Today, nearly 60% of doctor offices ban or limit drug representatives and the samples they offer. While samples are still valuable, our solution address the fact that many healthcare systems and doctors are looking for an easier, more effective way to increase affordable access and adherence to their prescribed branded medications.

Brand Messaging – Our brand messaging services include a variety of brand awareness and clinical messaging services that can be tailored to meet the needs of a brand. These messages can include brand awareness messages, reminder ads, clinical messages and unbranded messages that can be targeted by specialty, diagnostic code and other criteria. Brand messaging is highly complementary to our core financial messaging product. Historically, we have sold brand messaging based on specific products offered by our EHR partners, but we have developed our own proprietary brand messaging system and rolled this product out in 2017. We have also purchased all available 2018 inventory from Allscripts for its LogRx brand messaging product, as well as its Infoscripts messaging product. We believe brand messaging represents a significant growth opportunity for us.

Brand Support – Our brand support is focused on educating and working with pharmaceutical manufacturers on identifying, formulating, and implementing new eRx media strategies for promoting their products. Our services include: 1) Drug File Integration - a service designed to better insure that manufacturers' drugs are present in every ePrescribing platform available; 2) Sales Force Training – a service to educate the extended field sales force on this new integrated solution and what to look for within their client base to insure maximum exposure of their brands; and 3) Strategy Development – a service that assists pharmaceutical manufacturers in identifying and building a competitive strategy to take advantage of this new digital frontier. Currently, this activity results in less than 10% of our revenue, but represents a significant growth opportunity for us.

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Marketing and Sales

We continue to extend our marketing efforts to build both brand and capabilities awareness in the market. As previously discussed, we continue to actively participate in industry and partner events such as ExL Pharma and the ACE – Allscripts Users Conference, as well as having taken a lead sponsor position in the CBInet eRx and EHR conferences in March of 2017.

We also continue to focus on the expansion of our strategic partnership with WPP, plc. We plan to continue to increase our marketing efforts with all of our strategic partners as we continue to promote our platform primarily through:

Industry and Partner Events;

Email Campaigns;

Internet Marketing;

Public Relations Campaigns;

Physician Offices;

Direct to Consumer Marketing;

Trade Media Advertising;

Pharmacy Partners;

Physician Organizations and Associations; and

Strategic Relationships.

Competition

Our platform competes in the highly competitive pharmaceutical and healthcare digital marketing industry that is dominated by large well-known companies with established names, solid market niches, wide arrays of product offerings and marketing networks. Our financial messaging offerings compete for pharmaceutical budgets with a variety of other forms of advertising and promotion.

Despite these overall competitors, we do not have major competition in our specific portion of the financial messaging market. We have a growing list of potential partners whom either have content that they want to deliver through our distribution engine and network, or have complementary technology and want to integrate our solution as a channel partner and thereby increase our reach to clinicians. The primary direct competitors in our space of the market are ConnectiveRx and Aptus Health. However, we believe our breadth of brands offered, extensive list of pharmaceutical clients, and the vast reach of our network give us a substantial advantage and allow us to achieve a dominant position in the marketplace.

Intellectual Property

In 2012, we were awarded a patent for our innovative solution (US Patent No. 8,341,015). This award was a result of our extensive research and development efforts. The awarded claims cover our ability to electronically process, display and distribute eligible prescription savings on the medications and therapies healthcare providers wish to prescribe for their patients.

We use a nationally ranked intellectual property law firm to further expand and protect our intellectual property. We believe our current and expanding IP will allow us to continue being the leader in this rapidly growing space. We stand ready to prepare additional filings, as necessary, to protect our intellectual property on any forthcoming solutions that will further assist and support physicians, pharmacists and patients.

OPTIMIZERx and SampleMD are our licensed trademarks.

Government Regulation

Fraud and Abuse Laws

Anti-Kickback Statutes

The federal healthcare program Anti-Kickback Statute prohibits persons from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual for, or the furnishing, arranging for or recommending a good or service for which payment may be made in whole or part under a federal healthcare program such as Medicare or Medicaid. The definition of remuneration has been broadly interpreted to include anything of value, including for example gifts, discounts, the furnishing of supplies or equipment, credit arrangements, payments of cash and waivers of payments. Several courts have interpreted the statute's intent requirement to mean that if any one purpose of an arrangement involving remuneration is to induce referrals or otherwise generate business involving goods or services reimbursed in whole or in part under federal healthcare programs, the statute has been violated. The law contains a few statutory exceptions, including payments to bona fide employees, certain discounts and certain payments to group purchasing organizations. Violations can result in significant penalties, imprisonment and exclusion from Medicare, Medicaid and other federal healthcare programs. Exclusion of a manufacturer would preclude any federal healthcare program from paying for its products. In addition, kickback arrangements can provide the basis for an action under the Federal False Claims Act, which is discussed in more detail below. The Anti-Kickback Statute is broad and potentially prohibits many arrangements and practices that are lawful in businesses outside of the healthcare industry. Recognizing that the Anti-Kickback Statute is broad and may technically prohibit many innocuous or beneficial arrangements, the Office of Inspector General of Health and Human Services, or OIG, issued a series of regulations, known as the safe harbors, beginning in July 1991. These safe harbors set forth provisions that, if all the applicable requirements are met, will assure healthcare providers and other parties that they will not be prosecuted under the Anti-Kickback Statute. The failure of a transaction or arrangement to fit precisely within one or more safe harbors does not necessarily mean that it is illegal or that prosecution will be pursued. However, conduct and business arrangements that do not fully satisfy each applicable safe harbor may result in increased scrutiny by government enforcement authorities such as the OIG. Arrangements that implicate the Anti-Kickback Law, and that do not fall within a safe harbor, are analyzed by the OIG on a case-by-case basis. Government officials have focused recent enforcement efforts on, among other things, the sales and marketing activities of healthcare companies, and recently have brought cases against individuals or entities with personnel who allegedly offered unlawful inducements to potential or existing customers in an attempt to procure their business. Settlements of these cases by healthcare companies have involved significant fines and/or penalties and in some instances criminal pleas. In addition to the Federal Anti-Kickback Statute, many states have their own kickback laws. Often, these laws closely follow the language of the federal law, although they do not always have the same exceptions or safe harbors. In some states, these anti-kickback laws apply with respect to all payors, including commercial health insurance companies.

False Claims Laws

Federal false claims laws prohibit any person from knowingly presenting, or causing to be presented, a false claim for payment to the federal government or knowingly making, or causing to be made, a false statement to get a false claim paid. Manufacturers can be held liable under false claims laws, even if they do not submit claims to the government, if they are found to have caused submission of false claims. The Federal Civil False Claims Act also includes whistle blower provisions that allow private citizens to bring suit against an entity or individual on behalf of the United States and to recover a portion of any monetary recovery. Many of the recent highly publicized settlements in the healthcare industry related to sales and marketing practices have been cases brought under the False Claims Act. The majority of states also have statutes or regulations similar to the federal false claims laws, which apply to items and services reimbursed under Medicaid and other state programs, or, in several states, apply regardless of the payor. Sanctions under these federal and state laws may include civil monetary penalties, exclusion of a manufacturer's products from reimbursement under government programs, criminal fines and imprisonment.

Privacy and Security

The Health Insurance Portability and Accountability Act of 1996, or HIPAA, and the rules promulgated there under require certain entities, referred to as covered entities, to comply with established standards, including standards regarding the privacy and security of protected health information, or PHI. HIPAA further requires that covered entities enter into agreements meeting certain regulatory requirements with their business associates, as such term is defined by HIPAA, which, among other things, obligate the business associates to safeguard the covered entity's PHI against improper use and disclosure. While not directly regulated by HIPAA, our customers or distributors might face significant contractual liability pursuant to such an agreement if the business associate breaches the agreement or causes the covered entity to fail to comply with HIPAA. It is possible that HIPPA compliance could become a substantial regulatory burden and expense to our operations, although we do not believe that this will occur as a general website publisher.

Employees

As of December 31, 2017, we had 23 full-time employees and one part-time employee, in addition to contracted programmers, as needed, throughout the year.

Subsidiaries

We conduct our operations through our wholly-owned subsidiary, OptimizeRx Corporation, a Michigan corporation.

Recent developments

In February 2018, the Company's Board of Directors amended the 2013 Equity Compensation Plan to increase the number of shares authorized under the plan to 5,500,000. At the same time, the Company granted 390,000 shares of restricted common stock to officers and options to purchase 320,000 shares of common stock with an exercise price of $1.40 to non-officers, both of which vest only if the Company achieves certain stretch revenue goals in either 2019 or 2020. In addition, the Company accelerated vesting to 2018 on 300,000 existing options that previously vested in 2021.

Item 1A. Risk Factors

Risks Relating to Business and Financial Condition

Because we have historically experienced losses, if we are unable to achieve profitability, our financial condition and company could suffer.

Since the inception of our business we have historically incurred losses. While we have increased revenues significantly, we have not yet been able to achieve profitability due to significant investments in our growth and non-cash expenses. Our ability to achieve consistent profitability depends on our ability to generate sales through our technology platform and advertising model, while maintaining reasonable expense levels. If we do not achieve sustainable profitability, it may impact our ability to continue our operations.

Our business and growth may suffer if we are unable to attract and retain key employees.

Our success depends on the expertise of our executive officers and certain other key technical personnel. It may be difficult to find sufficiently qualified individuals to replace management or other key technical personnel in the event of death, disability or resignation, thus frustrating our ability to implement our business plan, which could negatively affect our operating results.

Furthermore, our ability to expand operations to accommodate our anticipated growth will also depend on our ability to attract and retain qualified media, management, finance, marketing, sales and technical personnel. However, competition for these types of employees is intense due to the limited number of qualified professionals. Our ability to meet our business development objectives will depend in part on our ability to recruit, train and retain top quality

people with advanced skills who understand our technology and business. If we are unable to engage and retain the necessary personnel, our business may be materially and adversely affected.

Our failure to obtain, retain or attract additional customers could prevent us from successfully executing our business plan.

We currently work with many leading pharmaceutical companies, including Pfizer, Eli Lilly, Actavis, AstraZeneca, Alcon, Daiichi Sankyo, Novartis, Novo Nordisk, Valeant, Shire, and others. Our failure to retain existing customers or expand with new customers could negatively impact our business.

We are dependent on a concentrated group of customers.

Our revenues are concentrated in approximately 25 customers, primarily large pharmaceutical manufacturers and large advertising agencies. Loss of one or more of our larger customers could have a negative impact on our operating results. In each of 2016 and 2017, our largest customer in the year accounted for approximately 12% of revenues, although it was a different customer in each year.

We may be unable to support our technology to further scale our operations successfully.

Our plan is to grow rapidly through further integration of our technology in electronic platforms. Our growth will place significant demands on our management and technology development, as well as our financial, administrative and other resources. We cannot guarantee that any of the systems, procedures and controls we put in place will be adequate to support the commercialization of our operations. Our operating results will depend substantially on the ability of our officers and key employees to manage changing business conditions and to implement and improve our financial, administrative and other resources. If we are unable to respond to and manage changing business conditions, or the scale of our products, services and operations, then the quality of our services, our ability to retain key personnel and our business could be harmed.

If we are unable to maintain our contracts with electronic prescription platforms, our business will suffer.

We are reliant upon our contracts with leading electronic prescribing platforms, including Allscripts, Dr. First, Quest Diagnostics, Amazing Charts, and others. Such arrangements subject us to a number of risks, including the following:

Our contract partners may experience financial, regulatory or operational difficulties, which may impair their ability to focus on and fulfill their contract obligations to us;

Legal disputes or disagreements, including the ownership of intellectual property, may occur with one or more of our partners and may lead to lengthy and expensive litigation or arbitration;

Significant changes in a partner's business strategy may adversely affect a partner's willingness or ability to satisfy obligations under any such arrangement; and

A partner could terminate the partnership arrangement, which could negatively impact our ability to sell our products and achieve revenues.

We will need to maintain these relationships as well as diversify them. The inability to do so could adversely impact our business.

Our agreements with electronic prescription platforms are subject to audit.

Our agreements with our electronic prescription platform partners provide for revenue sharing payments to the platform partners based on the revenue we generate through the platform. These payments are subject to audit by our partners, at their cost, and if there is a dispute as to the calculation, we may be liable for additional payments. If an underpayment is determined to be in excess of a certain amount, for example 10%, some agreements would require us to pay for the cost of the audit, as well.

Developing and implementing new and updated applications, features and services for our portals may be more difficult than expected, may take longer and cost more than expected and may not result in sufficient increases in revenue to justify the costs.

We have completed the development and migration of our on-demand, rule based content delivery platform. Attracting and retaining users of our portals requires us to continue to improve the technology underlying those portals and to continue to develop new and updated applications, features and services for those portals. If we are unable to do so on a timely basis or if we are unable to implement new applications, features and services without disruption to our existing ones, we may lose potential users and clients. The costs of development of these enhancements may negatively impact our ability to achieve profitability.

We rely on a combination of internal development, strategic relationships, licensing and acquisitions to develop our portals and related applications, features and services. Our development and/or implementation of new technologies, applications, features and services may cost more than expected, may take longer than originally expected, may require more testing than originally anticipated and may require the acquisition of additional personnel and other resources. There can be no assurance that the revenue opportunities from any new or updated technologies, applications, features or services will justify the amounts spent.

If we are unable to adhere to the regulatory and competitive climate in which we operate, we could be materially and negatively impacted.

Do to the labyrinth of regulations in healthcare space, state and federal, as well as political sensitivity of healthcare delivery, our business model could be negatively impacted or fail.

The markets in which we operate are competitive, continually evolving and, in some cases, subject to rapid change.

Our portals face competition from numerous other companies, both in attracting users and in generating revenue from advertisers and sponsors. We compete for users with online services and websites that provide savings on medications and healthcare products, including both commercial sites and not-for-profit sites. We compete for advertisers and sponsors with: health-related web sites; general purpose consumer web sites that offer specialized health sub-channels; other high-traffic web sites that include both healthcare-related and non-healthcare-related content and services; search engines that provide specialized health search; and advertising networks that aggregate traffic from multiple sites.

Our healthcare provider portals compete with: providers of healthcare decision-support tools and online health management applications; wellness and disease management vendors; and health information services and health management offerings of healthcare benefits companies and their affiliates.

Many of our competitors have greater financial, technical, product development, marketing and other resources than we do. These organizations may be better known than we are and have more customers or users than we do. We cannot provide assurance that we will be able to compete successfully against these organizations or any alliances they have formed or may form. Since there are no substantial barriers to entry into the markets in which our public portals participate, we expect that competitors will continue to enter these markets.

Developments in the healthcare industry could adversely affect our business.

Most of our revenue is derived from the healthcare industry and could be affected by changes affecting healthcare spending. We are particularly dependent on pharmaceutical, biotechnology and medical device companies for our advertising and sponsorship revenue.

General reductions in expenditures by healthcare industry participants could result from, among other things:

Government regulation or private initiatives that affect the manner in which healthcare providers interact with patients, payers or other healthcare industry participants, including changes in pricing or means of delivery of healthcare products and services;

Government regulation prohibiting the use of coupons by patients covered by federally funded health insurance programs;

Consolidation of healthcare industry participants;

Reductions in governmental funding for healthcare; and

Adverse changes in business or economic conditions affecting healthcare payers or providers, pharmaceutical, biotechnology or medical device companies or other healthcare industry participants.

Even if general expenditures by industry participants remain the same or increase, developments in the healthcare industry may result in reduced spending in some or all of the specific market segments that we serve or are planning to serve. For example, use of our products and services could be affected by:

Changes in the design of health insurance plans;

A decrease in the number of new drugs or medical devices coming to market;

A decrease in marketing expenditures by pharmaceutical or medical device companies, including as a result of governmental regulation or private initiatives that discourage or prohibit advertising or sponsorship activities by pharmaceutical or medical device companies; and

Payor pressure to move to generic brands.

In addition, our customers' expectations regarding pending or potential industry developments may also affect their budgeting processes and spending plans with respect to products and services of the types we provide.

The healthcare industry has changed significantly in recent years and we expect that significant changes will continue to occur. However, the timing and impact of developments in the healthcare industry are difficult to predict. We cannot assure you that the markets for our products and services will continue to exist at current levels or that we will have adequate technical, financial and marketing resources to react to changes in those markets.

Our success is dependent in part on obtaining, maintaining and enforcing our proprietary rights and our ability to avoid infringing on the proprietary rights of others.

We seek patent protection for those inventions and technologies for which we believe such protection is suitable and is likely to provide a competitive advantage to us. Because patent applications in the United States are maintained in secrecy until either the patent application is published or a patent is issued, we may not be aware of third-party patents, patent applications and other intellectual property relevant to our products that may block our use of our intellectual property or may be used in third-party products that compete with our products and processes. In the event a competitor or other party successfully challenges our products, processes, patents or licenses or claims that we have infringed upon their intellectual property, we could incur substantial litigation costs defending against such claims, be required to pay royalties, license fees or other damages or be barred from using the intellectual property at issue, any of which could have a material adverse effect on our business, operating results and financial condition.

We also rely substantially on trade secrets, proprietary technology, nondisclosure and other contractual agreements, and technical measures to protect our technology, application, design, and manufacturing know-how, and work actively to foster continuing technological innovation to maintain and protect our competitive position. We cannot assure you that steps taken by us to protect our intellectual property and other contractual agreements for our business will be adequate, that our competitors will not independently develop or patent substantially equivalent or superior technologies or be able to design around patents that we may receive, or that our intellectual property will not be misappropriated.

Our business will suffer if our network systems fail or become unavailable.

A reduction in the performance, reliability and availability of our network infrastructure would harm our ability to distribute our products to our users, as well as our reputation and ability to attract and retain customers. Our systems and operations could be damaged or interrupted by fire, flood, power loss, telecommunications failure, Internet breakdown, earthquake and similar events. Our systems could also be subject to viruses, break-ins, sabotage, acts of terrorism, acts of vandalism, hacking, cyber-terrorism and similar misconduct. We might not carry adequate business interruption insurance to compensate us for losses that may occur from a system outage. Any system error or failure that causes interruption in availability of our product or an increase in response time could result in a loss of potential customers, which could have a material adverse effect on our business, financial condition and results of operations. If we suffer sustained or repeated interruptions, then our products and services could be less attractive to our users and our business would be materially harmed.

If we are unable to manage growth, our operations could be adversely affected.

Our progress is expected to require the full utilization of our management, financial and other resources. Our ability to manage growth effectively will depend on our ability to improve and expand operations, including our financial and management information systems, and to recruit, train and manage personnel. There can be no absolute assurance that management will be able to manage growth effectively.

If we do not properly manage the growth of our business, we may experience significant strains on our management and operations and disruptions in our business. Various risks arise when companies and industries grow quickly. If our business or industry grows too quickly, our ability to meet customer demand in a timely and efficient manner could be challenged. We may also experience development delays as we seek to meet increased demand for our products. Our failure to properly manage the growth that we or our industry might experience could negatively impact our ability to execute on our operating plan and, accordingly, could have an adverse impact on our business, our cash flow and results of operations, and our reputation with our current or potential customers.

Our business is subject to changing regulation of corporate governance and public disclosure.

Because our common stock is publicly traded, we are subject to certain rules and regulations of federal and state entities charged with the protection of investors and the oversight of companies whose securities are publicly traded. These entities have continued to develop additional regulations and requirements in response to laws enacted by Congress, most notably the Sarbanes-Oxley Act of 2002. Complying with these new regulations has resulted in, and is likely to continue to result in, increased general & administrative costs and a diversion of management time and attention from revenue generating and other business activities to compliance activities.

Risks Relating to Our Securities

If a market for our common stock does not develop, shareholders may be unable to sell their shares.

Our common stock is quoted under the symbol "OPRX" on the OTCQB operated by OTC Markets Group, Inc., an electronic inter-dealer quotation medium for equity securities. We do not currently have an active trading market. There can be no assurance that an active and liquid trading market will develop or, if developed, that it will be sustained.

Our securities are very thinly traded. Accordingly, it may be difficult to sell shares of our common stock without significantly depressing the value of the stock. Unless we are successful in developing continued investor interest in our stock, sales of our stock could continue to result in major fluctuations in the price of the stock.

The market price of our common stock is likely to be highly volatile and could fluctuate widely in price in response to various factors, many of which are beyond our control.

Our stock price is subject to a number of factors, including:

Technological innovations or new products and services by us or our competitors;

Government regulation of our products and services;

The establishment of partnerships with other healthcare companies;

Intellectual property disputes;

Additions or departures of key personnel;

Sales of our common stock;

Our ability to integrate operations, technology, products and services;

Our ability to execute our business plan;

Operating results below or exceeding expectations;

Whether we achieve profits or not;

Loss or addition of any strategic relationship;

Industry developments;

Economic and other external factors; and

Period-to-period fluctuations in our financial results.

Our stock price may fluctuate widely as a result of any of the above. 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.

Because we are subject to the "Penny Stock" rules, the level of trading activity in our stock may be reduced.

The Securities and Exchange Commission has adopted regulations which generally define "penny stock" to be any listed, trading equity security that has a market price less than $5.00 per share or an exercise price of less than $5.00 per share, subject to certain exemptions. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the risks in the penny stock market. The broker-dealer must also provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. In addition, the penny stock rules generally require that prior to a transaction in a penny stock, the broker-dealer make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for a stock that becomes subject to the penny stock rules which may increase the difficulty Purchasers may experience in attempting to liquidate such securities.

We do not expect to pay dividends in the foreseeable future. Any return on investment may be limited to the value of our common stock.

We do not anticipate paying cash dividends on our common stock in the foreseeable future. The payment of dividends on our common stock will depend on earnings, financial condition and other business and economic factors affecting it at such time as the 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 occur only if our stock price appreciates.

Provisions in the Nevada Revised Statutes and our Bylaws could make it very difficult for an investor to bring any legal actions against our directors or officers for violations of their fiduciary duties or could require us to pay any amounts incurred by our directors or officers in any such actions.

Members of our board of directors and our officers will have no liability for breaches of their fiduciary duty of care as a director or officer, except in limited circumstances, pursuant to provisions in the Nevada Revised Statutes and our Bylaws as authorized by the Nevada Revised Statutes. Specifically, Section 78.138 of the Nevada Revised Statutes provides that a director or officer is not individually liable to the company or its shareholders or creditors for any damages as a result of any act or failure to act in his or her capacity as a director or officer unless it is proven that (1) the director's or officer's act or failure to act constituted a breach of his or her fiduciary duties as a director or officer and (2) his or her breach of those duties involved intentional misconduct, fraud or a knowing violation of law. This provision is intended to afford directors and officers protection against and to limit their potential liability for monetary damages resulting from suits alleging a breach of the duty of care by a director or officer. Accordingly, you may be unable to prevail in a legal action against our directors or officers even if they have breached their fiduciary duty of care. In addition, our Bylaws allow us to indemnify our directors and officers from and against any and all costs, charges and expenses resulting from their acting in such capacities with us. This means that if you were able to enforce an action against our directors or officers, in all likelihood, we would be required to pay any expenses they incurred in defending the lawsuit and any judgment or settlement they otherwise would be required to pay. Accordingly, our indemnification obligations could divert needed financial resources and may adversely affect our business, financial condition, results of operations and cash flows, and adversely affect prevailing market prices for our common stock.

Item 1B. Unresolved Staff comments

None

Item 2. Properties

Currently, we do not own any real estate. Our principal executive offices are located at 400 Water Street, Suite 200, Rochester, Michigan 48307.

We initially signed the lease for our current office space on December 1, 2011. That lease expired on November 30, 2016 and we signed a new lease covering the same space. The new lease is a three-year lease beginning December 1, 2016, with options for up to an additional 6 years. The rent is payable monthly at rates of $6,232, $6,308, and $6,384 per month for years 1, 2, and 3 of the lease, respectively. The monthly rates for the option years range from $6,384 per month to $6,688 per month for the option years 4 through 9 of the lease. If we fail to exercise our option for option years 4 and 5, a lease termination payment of $7,300 will be due at the end of the initial 3-year term.

We also have month to month leases on shared office spaces in Cambridge Massachusetts and Nashville Tennessee, with monthly lease payments of $2,700 and $1,360, respectively.

We believe that our properties are adequate for our current needs, but growth potential may require larger facilities due to anticipated addition of personnel. We do not have any policies regarding investments in real estate, securities or other forms of property.

Item 3. Legal Proceedings

We have no current legal proceedings.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is quoted under the symbol "OPRX" on the OTCQB operated by OTC Markets Group, Inc. Only a limited market exists for our securities. There is no assurance that a regular trading market will develop, or if developed, that it will be sustained. Therefore, a shareholder may be unable to resell his securities in our company.

The following tables set forth the range of high and low bid information for our common stock for the each of the periods indicated as reported by the OTCQB. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

Fiscal Year Ending December 31, 2016

Quarter Ended	High $	Low $
March 31, 2016	1.24	0.89
June 30, 2016	1.20	0.95
September 30, 2016	1.20	1.00
December 31, 2016	1.14	0.71

Fiscal Year Ending December 31, 2017

Quarter Ended	High $	Low $
March 31, 2017	0.85	0.65
June 30, 2017	1.10	0.63
September 30, 2017	1.30	0.92
December 31, 2017	1.60	1.15
Quarter Ended March 31, 2018 (through February 28, 2018)	$1.66	$1.12

On February 28, 2018, the last sales price per share of our common stock was $1.58.

Penny Stock

The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. Penny stocks are generally equity securities with a market price of less than $5.00, other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock, to deliver a standardized risk disclosure document prepared by the SEC, that: (a) contains a description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading; (b) contains a description of the broker's or dealer's duties to the customer and of the rights and remedies available to the customer with respect to a violation of such duties or other requirements of the securities laws; (c) contains a brief, clear, narrative description of a dealer market, including bid and ask prices for penny stocks and the significance of the spread between the bid and ask price; (d) contains a toll-free telephone number for inquiries on disciplinary actions; (e) defines significant terms in the disclosure document or in the conduct of trading in penny stocks; and (f) contains such other information and is in such form, including language, type size and format, as the SEC shall require by rule or regulation.

The broker-dealer also must provide, prior to effecting any transaction in a penny stock, the customer with (a) bid and offer quotations for the penny stock; (b) the compensation of the broker-dealer and its salesperson in the transaction; (c) the number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of the market for such stock; and (d) a monthly account statement showing the market value of each penny stock held in the customer's account.

In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from those rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written acknowledgment of the receipt of a risk disclosure statement, a written agreement as to transactions involving penny stocks, and a signed and dated copy of a written suitability statement.

These disclosure requirements may have the effect of reducing the trading activity for our common stock. Therefore, stockholders may have difficulty selling our securities.

Holders of Our Common Stock

As of February 28, 2018, we had 29,318,081 shares of our common stock issued and outstanding, held by approximately 325 shareholders of record at our transfer agent, with approximately 1,200 additional shareholders holding our shares in street name.

Dividends

We currently intend to retain future earnings for the operation of our business. We have never declared or paid cash dividends on our common stock, and we do not anticipate paying any cash dividends in the foreseeable future.

In the event that a dividend is declared, common stockholders on the record date are entitled to share ratably in any dividends that may be declared from time to time on the common stock by our board of directors from funds legally available.

There are no restrictions in our articles of incorporation or bylaws that restrict us from declaring dividends. The Nevada Revised Statutes, however, do prohibit us from declaring dividends where, after giving effect to the distribution of the dividend:

1. We would not be able to pay our debts as they become due in the usual course of business; or

2. Our total assets would be less than the sum of our total liabilities, plus the amount that would be needed to satisfy the rights of shareholders who have preferential rights superior to those receiving the distribution.

Securities Authorized for Issuance under Equity Compensation Plans

On June 13, 2013, our Board of Directors adopted the 2013 Equity Incentive Plan (the “Plan”). The purpose of the Plan is to attract and retain the best available personnel for positions of substantial responsibility with us, to provide additional incentive to employees, directors and consultants, and to promote our success. Under the initial Plan, we were able to issue up to an aggregate total of 1,500,000 incentive or non-qualified options to purchase our common stock, or stock awards. In March 2016, the Board expanded the number of shares issuable under the plan to 4,000,000 and in February 2018, the number of shares issuable was increased to 5,500,000.

Equity Compensation Plans as of December 31, 2017

Equity Compensation Plans Not Approved by the Shareholders	Number of Securities to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options (b)	Number of Securities remaining available for future issuance under equity compensation plans (c)
2013 Equity Compensation Plan	4,106,250	$ 1.04	(1)
Other Equity Compensation (warrants)	1,044,583	$ 1.11	N/A
Total	5,150,833	$ 1.06	(1)

(1) We had no remaining shares available to grant under the Plan at December 31, 2017. In 2018, we increased our available shares under the Plan to 5,500,000 shares.

Recent Sales of Unregistered Securities

The information set forth below relates to our issuances of securities without registration under the Securities Act of 1933 during the reporting period which were not previously included in a Quarterly Report on Form 10-Q or Current Report on Form 8-K.

In December 2017, we issued 18,750 shares of restricted common stock to our outside Directors as part of our director compensation package for services rendered in Q4 2017.

In February 2018, we granted 390,000 shares of common stock to officers and options to purchase 320,000 shares of common stock with an exercise price of $1.40 to non-officers, both of which vest only if we achieve certain stretch revenue goals in either 2019 or 2020.

These securities were issued pursuant to Section 4(2) of the Securities Act and/or Rule 506 promulgated thereunder. The holders represented their intention to acquire the securities for investment only and not with a view towards distribution. The investors were given adequate information about us to make an informed investment decision. We did not engage in any general solicitation or advertising. We directed our transfer agent to issue the stock certificates with the appropriate restrictive legend affixed to the restricted stock.

Item 6. Selected Financial Data

Not required under Regulation S-K for “smaller reporting companies”

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations for the Years Ended December 31, 2017 and 2016

Net Revenue

Our net revenue for the year ended December 31, 2017 was approximately $12.1 million, an increase of 56% from the year ended December 31, 2016. This increase resulted from increased pharmaceutical brands, an increased distribution network, and strong growth in our brand messaging product. We expect continued strong revenue growth in 2018 as a result of the foundations laid in 2016 and 2017.

Because the pharmaceutical industry is dominated by large companies with multiple brands, our revenue is concentrated in a relatively small number of companies. We have approximately 25 pharmaceutical companies as customers. We have focused our efforts on expanding both our customer base and our product offerings and are becoming less dependent on any one customer. In each of 2016 and 2017, we only had one pharmaceutical manufacturer that individually accounted for greater than 10% of our revenues, and that was a different customer in each year.

Cost of Sales

Our total cost of sales, composed primarily of revenue share expense, increased in the year ended December 31, 2017, from the year ended December 31, 2016 primarily due to the increase in revenues. In addition, revenue share expense as a percentage of revenue in 2017 increased from 2016 from approximately 44% in the year ended December 31, 2016 to approximately 51% in the year ended December 31, 2017.

This increase in revenue share expense as a percentage of revenue resulted primarily from product mix, and specifically from the substantial increase in our brand messaging revenue that has a lower margin and higher costs relative to our core financial messaging product. We expect revenue share expense as a percentage of revenue in 2018 to decline from 2017 levels. We have signed revenue share agreements with newer partners that contain lower revenue share percentages, and as revenue from those new channels increases, we expect it to help lower our overall percentage. We also expect continued growth in our brand messaging product, and this will enable us to spread the fixed costs associated with this type of messaging over a larger base and result in a lower overall revenue share percentage.

Gross Margin

Our gross margin, which is simply the difference between our revenues and our cost of sales, discussed above, increased substantially from 2016 to 2017 as a result of the increased revenue. However, our gross margin percentage decreased from approximately 56% in 2016 to 49% in 2017 for the reasons discussed above in the cost of sales section. We are focused on improving our margins in 2018 and have a target of increasing our margin to 55%.

Operating Expenses

Operating expenses increased to approximately $8.1 million for the year ended December 31, 2017, from approximately $5.9 million for the year ended December 31, 2016, an increase of approximately 36%. The detail by major category is reflected in the table below.

	Years Ended December 31	
	2017	2016
Salaries, Wages and Benefits	$4,151,740	$2,919,809
Professional Fees	324,117	576,995
Board Compensation	89,000	50,000
Investor Relations	126,548	127,082
Consultants	356,220	213,535
Advertising and Promotion	207,062	296,997
Depreciation and Amortization	324,551	235,284
Development and Maintenance	1,009,022	398,396
Office, Facility and Other	297,700	214,776
Travel	294,425	279,403
Subtotal	7,180,385	5,312,277
Stock-based compensation	902,389	559,301
Lawsuit settlement	-	50,000
Total Operating Expense	$8,082,774	$5,921,578

The main reasons for the overall increase in operating expenses in 2017 was our focus on staffing and scaling our company to focus on, and be able to support, accelerated revenue growth.

Within the operating expenses, there were a variety of increases, the largest of which was in salaries, wages and benefits as a result of additional staff added in 2016 and 2017, including related benefits. During 2017, we hired a president and two new vice presidents of sales, as well as additional supporting positions. Incentive compensation also increased in 2017, primarily as a result of the increase in revenues. We also enhanced our sales commission program and expanded it to include account managers to greater incentivize those people interfacing with the customers. We expect our compensation expense to increase in 2018, but at a much lower rate than in 2017.

Professional fees decreased due to the resolution of our last remaining piece of litigation in 2017. In 2018, we expect professional fees to remain at 2017 levels or even slightly decrease.

Expenses related to development, management, and maintenance of our technology increased in 2017 as a result of improvements to our system as well as costs associated with the start of migrating our technology to Amazon Web Services. We expect these costs to decrease significantly in 2018 due to the investments made in 2017.

Depreciation and amortization increased in 2017 from the 2016 levels primarily because of the assets capitalized in 2016 and 2017. Other increases in operating expenses generally increased due to the increased staffing levels.

Net Loss

We finished the year ended December 31, 2017 with a loss of approximately $2.1 million, as compared to a loss of approximately $1.5 million during the year ended December 31, 2016. The reasons for specific components are discussed above. Overall, we had an increase in revenue and gross margin offset by increased operating expenses to support future growth. In addition, the loss in both periods included significant noncash items. We had approximately $800,000 in noncash expense in 2016 and approximately $1.45 million in noncash expense in 2017.

Quarterly Financial Information

Following is a table of our quarterly operating results for 2017 for information purposes.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Revenues	$2,152,073	$2,865,823	$3,102,607	$4,006,919	$12,127,422
Revenue Share Expense	1,381,733	1,605,534	1,703,676	1,483,671	6,174,614
Gross Profit	770,340	1,260,289	1,398,931	2,523,248	5,952,808
Operating Expenses	1,660,778	1,630,853	2,028,589	2,762,554	8,082,774
Income (Loss) from Operations	(890,438)	(370,564)	(629,658)	(239,306)	(2,129,966)
Other income	7,756	9,063	6,872	2,246	25,937
Loss before Taxes	(882,682)	(361,501)	(622,786)	(237,060)	(2,104,029)
Provision for Taxes	-	-	-	-	-
Net Income (Loss)	(882,682)	(361,501)	(622,786)	(237,060)	(2,104,029)
Loss per share Basic and Diluted	$(0.03)	$(0.01)	$(0.02)	$(0.01)	$(0.07)

Liquidity and Capital Resources

As of December 31, 2017, we had total current assets of approximately $8.8 million, compared with current liabilities of approximately $3.5 million, resulting in working capital of approximately $5.3 million and a current ratio of approximately 2.5 to 1. This compares with the working capital balance of approximately $6.5 million and the current ratio of 2.8 to 1 at December 31, 2016. This decrease in working capital, as discussed in more detail below, is primarily the result of cash used in investing activities, as well as the redemption of shares of common stock held by our previous CEO.

Following is a table with summary data from the consolidated statement of cash flows for the year ended December 31, 2017 and 2016, as presented.

	2017	2016
Net cash used in operating activities	$(1,479,831)	$(465,965)
Net cash used in investing activities	(42,243)	(349,538)
Net cash used in financing activities	(390,000)	(357,415)
Net decrease in cash and cash equivalents	$(1,912,074)	$(1,172,918)

Our operating activities used approximately $1.5 million in the year ended December 31, 2017, as compared with approximately $0.5 million used in operating activities in the year ended December 31, 2016. The cash used in operations in 2017 was the result of both increased levels of working capital required to support higher revenue levels as well as a change in the contractual relationship related to certain partners resulting in a reduction of revenue share payable at December 31, 2017. The majority of the cash used in operations in 2016 related to a payment to our previous CEO. We had an accounts payable recorded at $570,000 to the previous CEO payable in 300,000 shares of common stock. We paid $363,000 in full settlement of the liability in cash in lieu of issuing shares. The difference between the amount paid and the amount recorded was charged to additional paid in capital.

We used approximately $50,000 in investing activities in the year ended December 31, 2017, as compared with approximately $350,000 used in investment activities in the year ended December 31, 2016. These investment activities relate to improvements being implemented in our software platform, protection and expansion of our patent portfolio and upgrade of our office facilities and computers. These items represent important components of our business strategy moving forward.

Financing activities used $390,000 in 2017 as a result of the redemption of shares of common stock held by our previous CEO. Financing activities used approximately $357,000 during the year ended December 31, 2016. This results from a payment to our previous CEO in 2016. In addition to the accounts payable related party, we also owed shares for previous stock grants. A total payment of approximately $720,000 was made to the previous CEO in 2017, with $363,000 affecting cash flow from operations and $357,000 reflected as cash flow from financing activities.

With our cash on hand, we have sufficient cash to operate our business for more than the next 12 months and we do not anticipate the need to raise additional equity for operating purposes.

Off Balance Sheet Arrangements

As of December 31, 2017, there were no off-balance sheet arrangements.

Critical Accounting Policies

A “critical accounting policy” is one which is both important to the portrayal of a company’s financial condition and results, and requires management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Our accounting policies are discussed in detail in the footnotes to our financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2017; however, we consider our critical accounting policies to be those related to determining the amount of revenue to be billed, the timing of revenue recognition, calculation of revenue share expense, stock-based compensation, capitalization and related amortization of intangible assets and impairment of assets.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”), which modifies lease accounting for lessees to increase transparency and comparability by recording lease assets and liabilities for operating leases and disclosing key information about leasing arrangements. The Company will adopt ASU 2016-02 in its first quarter of 2019. While the Company is currently evaluating the timing and impact of adopting ASU 2016-02, currently the Company anticipates no material impact to its Consolidated Statements of Operations. However, the ultimate impact of adopting ASU 2016-02 will depend on the Company’s lease portfolio as of the adoption date.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to customers.

Subsequently, the FASB has issued the following standards related to ASU 2014-09: ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations ("ASU 2016-08"); ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing ("ASU 2016-10"); ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients ("ASU 2016-12"); and ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers ("ASU 2016-20"). The Company must adopt ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 with ASU 2014-09 (collectively, the "new revenue standards").

The new revenue standards may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company will adopt the new revenue standards in Q1 2018. The new revenue standards are not expected to have a material impact on the amount and timing of revenue recognized in the Company's consolidated financial statements.

We do not expect the adoption of these or other recently issued accounting pronouncements to have a significant impact on our results of operation, financial position or cash flow.

Item 8. Financial Statements and Supplementary Data

Index to Financial Statements Required by Article 8 of Regulation S-X:

Audited Financial Statements:

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of OptimizeRx Corporation:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of OptimizeRx Corporation ("the Company ") as of December 31, 2017, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year ended December 31, 2017 and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OptimizeRx Corporation as of December 31, 2017, and the results of its operations and its cash flows for the year ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the OptimizeRx Corporation consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also

included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Sadler, Gibb & Associates, LLC

We have served as the Company's auditor since 2017.

Salt Lake City, UT

March 7, 2018

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5201 Eden Ave.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors

OptimizeRx Corporation

Rochester, MI

To Whom It May Concern:

We have audited the accompanying consolidated balance sheets of OptimizeRx Corporation as of December 31,2016, and the related consolidated statements of operations, shareholders' equity (deficit), and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OptimizeRx Corporation as of December 31, 2016 and the results of their operations and their cash flows for year ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

Sincerely,

/s/ KLJ & Associates, LLP

KLJ & Associates, LLP

Edina, MN

March 8, 2017

OPTIMIZERx CORPORATION

Consolidated Balance Sheets as of

December 31, 2017 and 2016

	December 31, 2017	December 31, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	$5,122,573	$7,034,647
Accounts receivable	2,257,276	1,951,811
Accounts receivable – related party	1,173,614	1,108,585
Prepaid expenses	255,428	80,820
Total Current Assets	8,808,891	10,175,863
Property and equipment, net	167,305	173,649
Other Assets		
Patent rights, net	638,766	772,394
Web development costs, net	143,730	351,804
Security deposit	5,049	5,049
Total Other Assets	787,545	1,129,247
TOTAL ASSETS	$9,763,741	$11,478,759
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable – trade	$457,289	$369,214
Accrued expenses	953,947	288,268
Revenue share payable	1,177,136	2,495,059
Revenue share payable – related party	447,670	127,458
Deferred revenue	507,160	386,581
Total Liabilities	3,543,202	3,666,580
Stockholders' Equity		
Preferred stock, $0.001 par value, 10,000,000 shares authorized, no issued and outstanding at December 31, 2017 and 2016,	-	-
Common stock, $0.001 par value, 500,000,000 shares authorized, 29,318,081 and 29,718,867 shares issued and outstanding at December 31, 2017 and 2016, respectively	29,318	29,719
Stock warrants	1,286,424	2,294,416
Additional paid-in-capital	35,267,919	33,747,137
Accumulated deficit	(30,363,122)	(28,259,093)
Total Stockholders' Equity	6,220,539	7,812,179
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$9,763,741	$11,478,759

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

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OPTIMIZERx CORPORATION

Consolidated Statements of Operations for the Years

Ended December 31, 2017 and 2016

	For the year ended December 31, 2017	For the year ended December 31, 2016
NET REVENUE		
Revenue	$8,431,208	$6,209,051
Revenue – related party	3,696,214	1,542,411
TOTAL NET REVENUE	12,127,422	7,751,462
REVENUE SHARE EXPENSE	6,174,614	3,411,396
GROSS MARGIN	5,952,808	4,340,066
EXPENSES		
Operating expenses		
Stock-based compensation	902,389	559,301
Depreciation and amortization	324,551	235,284
Lawsuit settlement	-	50,000
Other general and administrative expenses	6,855,834	5,076,993
Total Operating expenses	8,082,774	5,921,578
LOSS FROM OPERATIONS	(2,129,966)	(1,581,512)
OTHER INCOME		
Interest income	25,937	42,309
TOTAL OTHER INCOME	25,937	42,309
LOSS BEFORE PROVISION FOR INCOME TAXES	(2,104,029)	(1,539,203)
PROVISION FOR INCOME TAXES	-	-
NET LOSS	$(2,104,029)	$(1,539,203)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING: BASIC & DILUTIVE	29,459,259	29,707,918
NET LOSS PER SHARE: BASIC & DILUTIVE	$(0.07)	$(0.05)

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

OPTIMIZERx CORPORATION

Consolidated Statement of Stockholders' Equity for the Year

Ended December 31, 2016

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Stock Warrants	Additional Paid-in Capital	Stock Payable	Deferred Stock Compensation	Accumulated Deficit	Total Stockholders Equity
Balance, December 31, 2015	-	$-	29,030,925	$29,031	$2,329,508	$32,185,499	$1,132,148	$(13,800)	$(26,719,890)	$8,942,496
Issuance of stock options to employees						384,126				384,126
Issuance of common stock:										
for services			50,000	50		51,325				51,375
for cash			384,188	384		449,116				449,500
for options			103,754	104		(104)				-
for litigation settlement			100,000	100		109,900				110,000
Issue shares for stock payable			50,000	50		94,450	(94,500)			-
Shares payable redeemed for cash						437,733	(1,037,648)			(599,915
Expiration of Warrants					(35,092)	35,092				-
Expense consulting services								13,800		13,800
Net loss for the year									(1,539,203)	(1,539,203
Balance, December 31, 2016	-	$-	29,718,867	$29,719	$2,294,416	$33,747,137	$-	$-	$(28,259,093)	$7,812,179

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

OPTIMIZERx CORPORATION

Consolidated Statement of Stockholders' Equity for the Year

Ended December 31, 2017

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Stock Warrants	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
Balance, December 31, 2016	-	$ -	29,718,867	$29,719	$2,294,416	$33,747,137	$(28,259,093)	$7,812,179
Issuance of stock options to employees						815,014		815,014
Issuance of common stock:								
for services			75,000	75		87,300		87,375
for options			24,214	24		(24)		-
Shares redeemed for cash			(500,000)	(500)		(389,500)		(390,000)
Expiration of Warrants					(1,007,992)	1,007,992		-
Net loss for the year							(2,104,029)	(2,104,0290)
Balance, December 31, 2017	-	$ -	29,318,081	$29,318	$1,286,424	$35,267,919	$(30,363,122)	$6,220,539

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

OPTIMIZERx CORPORATION

Consolidated Statements of Cash Flows for the Years

Ended December 31, 2017 and 2016

	For the year ended December 31, 2017	For the year ended December 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss for the period	$ (2,104,029)	$ (1,539,203)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	324,551	235,284
Loss on disposal of assets	65,738	-
Stock options issued for services	815,014	384,126
Stock-based compensation	87,375	175,175
Changes in:		
Accounts receivable	(305,465)	514,514
Accounts receivable related party	(65,029)	(727,460)
Prepaid expenses	(174,608)	(10,197)
Accounts payable	88,075	(205,977)
Revenue share payable	(1,317,923)	177,254
Revenue share payable – related party	320,212	89,655
Accrued expenses	665,679	281,285
Deferred revenue	120,579	159,579
NET CASH USED IN OPERATING ACTIVITIES	(1,479,831)	(465,965)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(42,243)	(178,434)
Patent rights	-	(7,268)
Intangible Assets	-	(163,836)
NET CASH USED IN INVESTING ACTIVITIES	(42,243)	(349,538)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	-	449,500
Redemption of common stock	(390,000)	(806,915)
NET CASH USED IN FINANCING ACTIVITIES	(390,000)	(357,415)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,912,074)	(1,172,918)
CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD	7,034,647	8,207,565
CASH AND CASH EQUIVALENTS – END OF PERIOD	$ 5,122,573	$ 7,034,647
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ -	$ -
Cash paid for income taxes	$ -	$ -

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

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OPTIMIZERx CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS

OptimizeRx Corporation is a leading provider of digital health messaging via electronic health records (EHRs), providing a direct channel for pharmaceutical companies to communicate with healthcare providers. The company's cloud-based solution supports patient adherence to medications by providing real-time access to financial assistance, prior authorization, education and critical clinical information. The company's network is comprised of leading EHR platforms and provides more than half a million healthcare providers access to these benefits within their workflow at the point of care.

The company was originally formed as Optimizer Systems, LLC in the State of Michigan on January 31, 2006. It converted its form to a corporation on October 22, 2007 and changed its name to OptimizeRx Corporation. On April 14, 2008, RFID, Ltd., a Colorado corporation, consummated a reverse merger by entering into a share exchange agreement with the stockholders of OptimizeRx Corporation, pursuant to which the stockholders of OptimizeRx Corporation exchanged all of the issued and outstanding capital stock of OptimizeRx Corporation for 1,256,958 shares of common stock of RFID, Ltd., representing 100% of the outstanding capital stock of RFID, Ltd. As of April 30, 2008, RFID's officers and directors resigned their positions and RFID changed its business to OptimizeRx's business. On April 15, 2008, RFID, Ltd.'s corporate name was changed to OptimizeRx Corporation. On September 4, 2008, a migratory merger was completed, thereby changing the state of incorporation from Colorado to Nevada, resulting in the current corporate structure, in which OptimizeRx Corporation, a Nevada corporation, is the parent corporation, and OptimizeRx Corporation, a Michigan corporation, is its wholly-owned subsidiary (together, "OptimizeRx" and "the Company").

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America and are presented in US dollars. The Company has adopted a December 31 fiscal year-end.

Principles of Consolidation

The financial statements reflect the consolidated results of OptimizeRx Corporation (a Nevada corporation) and its wholly owned subsidiary, OptimizeRx Corporation (a Michigan corporation). All material inter-company transactions have been eliminated in the consolidation.

Cash and Cash Equivalents

For purposes of the accompanying financial statements, the Company considers all highly liquid instruments with an initial maturity of three months or less to be cash equivalents.

Fair Value of Financial Instruments

The fair value of cash, accounts receivable, prepaid expenses, accounts payable, accounts payable – related party, accrued expenses and deferred revenue approximates the carrying amount of these financial instruments due to their short-term nature.

Fair value is defined as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk including our own credit risk.

OPTIMIZERx CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition to defining fair value, the disclosure requirements around fair value establish a fair value hierarchy for valuation inputs, which is expanded. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels, which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1 – Inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

Level 2 – Inputs are based upon significant observable inputs other than quoted prices included in Level 1, such as quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs are generally unobservable and typically reflect management’s estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques. The Company’s stock options and warrants are valued using level 3 inputs.

The carrying value of the Company’s financial assets and liabilities, which consist of cash, accounts receivable, prepaid expenses, patent rights, web development costs, accounts payable, accounts payable – related party, accrued expenses and deferred revenue, are valued using level 1 inputs. The Company believes that the recorded values approximate their fair value due to the short maturity of such instruments. Unless otherwise noted, it is management’s opinion that the Company is not exposed to significant interest, exchange or credit risks arising from these financial instruments.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are reported at realizable value, net of allowances for doubtful accounts, which is estimated and recorded in the period the related revenue is recorded. The Company has a standardized approach to estimate and review the collectability of its receivables based on a number of factors, including the period they have been outstanding. Historical collection and payer reimbursement experience is an integral part of the estimation process related to allowances for doubtful accounts. In addition, the Company regularly assesses the state of its billing operations in order to identify issues, which may impact the collectability of these receivables or reserve estimates. Because the Company's customers are primarily large well-capitalized companies, historically there has been very little bad debt expense. Bad debt expense was $0 for each of the years ended December 31, 2017 and 2016. The allowance for doubtful accounts was $0 as of both December 31, 2017 and 2016.

Property and Equipment

Property and equipment are stated at cost and are being depreciated over their estimated useful lives of three to five years for office equipment and three years for computer equipment using the straight-line method of depreciation for book purposes. Maintenance and repair charges are expensed as incurred.

Intangible Assets

Intangible assets are stated at cost and are being amortized over their estimated useful lives of seventeen years for patents and three to four years for software and websites using the straight-line method.

OPTIMIZERx CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition and Revenue Share Expense

Revenue is recognized when it is earned. Revenues are primarily generated from content delivery activities in which the Company delivers financial or brand messaging through a distribution network of ePrescribers and Electronic Health Record technology providers (channel partners), or from reselling services that complement the business for other partners.

The Company recognizes setup fees that are required for integrating client offerings and campaigns into the rule-based content delivery system and network upon completion of the setup when the client's campaign is ready to launch within the system. As the messaging is distributed through the platform and network of channel partners (a transaction), these transactions are recorded, and revenue is recognized, at the time of distribution. Revenue for transactions can be realized based on a price per message, a price per redemption, or as a flat fee over a period of time, depending on the client contract. Additionally, the Company also recognizes revenue for providing program performance reporting and maintenance, either by the Company directly delivering reports or by providing access to its online reporting portal that the client can utilize. These fees are charged monthly and recognized as recurring monthly revenue.

In some instances, the Company also resells products and or services that are available through channel partners on a commission basis, and that are complementary to the core business and client base. In these instances, net revenue is recognized based on the commission based revenue split that the Company receives. In instances where the Company resells services and have all financial risk and significant operation input and risk, the Company records the revenue gross.

Based on the volume of transactions that are delivered through the channel partner network, the Company provides a revenue share to compensate the partner for their promotion of the campaign. Revenue shares are a negotiated percentage of the transaction fees and can also be specific to special considerations and campaigns. In addition, the Company pays revenue share to ConnectiveRx (formerly LDM/PDR) as a result of a 2014 legal settlement in an amount equal to the greater of 10% of financial messaging distribution revenues generated through the network, or $0.37 per financial message distributed through our network. The contractual amount due to the channel partners is recorded as an expense at the time the eCoupon is distributed.

Income Taxes

Income taxes are computed using the asset and liability method. Under the asset and liability method, deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax basis of assets and liabilities and are measured using the currently enacted tax rates and laws. A valuation allowance is provided for the amount of deferred tax assets that, based on available evidence, are not expected to be realized.

The Company recognizes the tax benefit from uncertain tax positions if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. It is the Company's policy to include interest and penalties related to tax positions as a component of income tax expense.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions have been made in determining the carrying value of assets, depreciable and amortizable lives of tangible and intangible assets, the carrying value of liabilities, the amount of revenue to be billed, and the timing of revenue recognition and related revenue share expenses. Actual results could differ from these estimates.

OPTIMIZERx CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risks

The Company maintains its cash and cash equivalents in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts; however, amounts in excess of the federally insured limit may be at risk if the bank experiences financial difficulties.

Research and Development

The Company expenses research and development expenses as incurred. Our research efforts are focused on understanding the market dynamics that have the potential to affect the business and increase revenue in both the short and long term. Our primary goal is to increase revenue by helping patients better afford and access the medicines their doctors prescribe, as well as other healthcare products and services they need. Based on this, the Company continually seeks ways to improve its technology to enhance user experiences, and to develop new services and solutions for its customers.

Share-based Payments

The Company uses the fair value method to account for stock-based compensation. The fair value of the equity instrument is charged directly to compensation expense and additional paid-in capital over the period during which services are rendered. The fair value of each award is estimated on the date of each grant. For restricted stock, the fair market value is based on the market value of the stock granted on the date of the grant. For options, it is estimated using the Black-Scholes option pricing model that uses the assumptions noted in the following table. Estimated volatilities are based on the historical volatility of the Company’s stock over the same period as the expected term of the options. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The Company uses historical data to estimate option exercise behavior and to determine this term. The risk free rate used is based on the U.S. Treasury yield curve in effect at the time of the grant using a time period equal to the expected option term. The Company has never paid dividends and does not expect to pay any dividends in the future.

	2017	2016

Expected dividend yield	0%	0%
Risk free interest rate	1.47% - 1.81%	0.86%-1.15%
Expected option term	3.5 – 5 years	4.5 years
Turnover/forfeiture rate	0%	0%
Expected volatility	65%-78%	91% - 99%

The Black-Scholes option valuation model and other existing models were developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. These option valuation models require the input of, and are highly sensitive to, subjective assumptions including the expected stock price volatility. OptimizeRx's stock options have characteristics significantly different from those of traded options, and changes in the subjective input assumptions could materially affect the fair value estimate.

OPTIMIZERx CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loss Per Common and Common Equivalent Share

The computation of basic earnings per common share is computed using the weighted average number of common shares outstanding during the year. The computation of diluted earnings per common share is based on the weighted average number of shares outstanding during the year plus common stock equivalents, which would arise from the exercise of warrants outstanding using the treasury stock method and the average market price per share during the year. The number of common shares potentially issuable upon the exercise of certain options and warrants that were excluded from the diluted loss per common share calculation was approximately 489,201, because they are anti-dilutive, as a result of a net loss for the year ended December 31, 2017. As described in Notes 11 and 12, the Company had options and warrants outstanding as indicated in the table below.

	2017	2016
Options	4,106,250	3,120,000
Warrants	1,044,583	2,044,583
Weighted average exercise price	$1.06	$1.34

Impairment of Long-Lived Assets

The Company continually monitors events and changes in circumstances that could indicate carrying amounts of long-lived assets may not be recoverable. When such events or changes in circumstances are present, the Company assesses the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through undiscounted expected future cash flows. If the total of the future cash flows is less than the carrying amount of those assets, the Company recognizes an impairment loss based on the excess of the carrying amount over the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell.

Recently Issued Accounting Guidance

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”), which modifies lease accounting for lessees to increase transparency and comparability by recording lease assets and liabilities for operating leases and disclosing key information about leasing arrangements. The Company will adopt ASU 2016-02 in its first

quarter of 2019. While the Company is currently evaluating the timing and impact of adopting ASU 2016-02, currently the Company anticipates no material impact to its Consolidated Statements of Operations. However, the ultimate impact of adopting ASU 2016-02 will depend on the Company's lease portfolio as of the adoption date.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to customers.

Subsequently, the FASB has issued the following standards related to ASU 2014-09: ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations ("ASU 2016-08"); ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing ("ASU 2016-10"); ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients ("ASU 2016-12"); and ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers ("ASU 2016-20"). The Company must adopt ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 with ASU 2014-09 (collectively, the "new revenue standards").

The new revenue standards may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company will adopt the new revenue standards in its first quarter of 2018. The new revenue standards are not expected to have a material impact on the amount and timing of revenue recognized in the Company's consolidated financial statements.

OPTIMIZERx CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 3 – PREPAID EXPENSES

Prepaid expenses consisted of the following as of December 31, 2017 and 2016:

	2017	2016
Insurance	$43,764	$43,608
Rent	8,539	7,212
EHR access fees	203,125	-
Legal	-	30,000
Total prepaid expenses	$255,428	$80,820

NOTE 4 – PROPERTY AND EQUIPMENT

The Company owned equipment recorded at cost which consisted of the following as of December 31, 2017 and 2016:

	2017	2016
Computer equipment	$83,079	$66,433
Furniture and fixtures	158,502	132,905
Subtotal	241,581	199,338
Accumulated depreciation	74,276	(25,689)
Property and equipment, net	$167,305	$173,649

Depreciation expense was $48,587 and $22,414 for the years ended December 31, 2017 and 2016, respectively.

NOTE 5 – WEB-BASED TECHNOLOGY

The Company has capitalized costs in developing its technology, which consisted of the following as of December 31, 2017 and 2016:

	2017	2016
OptimizeRx consumer web-based technology	$154,132	$154,133
OptimizeRx EHR integrated technology	1,304,230	1,304,230
Subtotal	1,458,362	1,458,363
Accumulated amortization	(1,314,632)	(1,106,559)
Web-based technology, net	$143,730	$351,804

Amortization is recorded using the straight-line method over periods of up to five years. The consumer web-based technology has no carrying value at either December 31, 2016 or 2017. Amortization expense for the technology costs was $208,074 and $152,502 for the years ended December 31, 2017 and 2016, respectively. Amortization expense related to these assets is expected to be $91,039 in 2018 and $52,691 in 2019 to completely amortize the December 31, 2017 carrying value.

OPTIMIZERx CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 6 – PATENT AND TRADEMARKS

On April 26, 2010, the Company acquired the technical contributions and assignment of all exclusive rights to and for a key patent from the former CEO of the Company in exchange for 300,000 shares of common stock, valued at $570,000 and 200,000 stock options, valued at $360,000.

The Company has capitalized costs in purchasing and defending its patent, which consisted of the following as of December 31, 2017 and 2016:

	2017	2016
Patent rights and intangible assets	$930,000	$930,000
Patent defense costs	172,457	172,457
New patents and trademarks	-	65,738
Subtotal	1,102,457	1,168,165
Accumulated amortization	(463,691)	(395,801)
Patent rights and intangible assets, net	$638,766	$772,394

The Company began amortizing the patent, using the straight-line method over the estimated useful life of 17 years, once it was put into service in July 2010. In 2013, the Company began incurring costs related to defense of the patent. These costs have been capitalized and will be amortized using the straight-line method over the remaining useful life of the original patent. Amortization expense was $67,890 and $67,758 for the years ended December 31, 2017 and 2016, respectively. We expect our amortization expense related to these patents to be $67,890 for each of the years from 2018 through 2022.

NOTE 7 – DEFERRED REVENUE

The Company has several signed contracts with customers for the distribution of financial messaging, or other services, which include payment in advance. The payments are not recorded as revenue until the revenue is earned under its revenue recognition policy discussed in Note 2. Deferred revenue was $507,160 and $386,581 as of December 31, 2017 and 2016, respectively.

NOTE 8 – RELATED PARTY TRANSACTIONS

During the year ended December 31, 2010, the Company acquired the technical contributions and assignment of all exclusive rights to and for a key patent in process at the time from a former CEO in exchange for 300,000 shares of common stock to be granted at the discretion of the seller and 200,000 stock options, valued at $360,000, which expired in April 2015. The shares were valued on the grant date at $570,000 and were recorded as a payable to the related party. In 2016, the obligation to issue those shares was redeemed for a payment of $363,000 in cash.

During the year ended December 31, 2015, WPP, plc made a strategic investment in the Company and is a shareholder that owns approximately 20% of the shares of the Company.

OPTIMIZERx CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 8 – RELATED PARTY TRANSACTIONS (continued)

The following table sets forth the activity between the Company and WPP

	2017	2016
Total billings to WPP Agencies	$3,554,168	$2,613,942
Revenue recognized from WPP Agencies	$3,696,214	$1,542,411
Accounts receivable from WPP Agencies	$1,173,614	$1,108,585
Rebates given to WPP Agencies	$33,249	$24,519
Marketing services purchased from WPP Agencies	$54,762	$190,686
Accounts payable to WPP Agencies	$-	$12,600
Revenue share expense recorded to WPP Agencies	$401,596	$177,372
Revenue share expenses owed to WPP Agencies	$447,670	$127,458

NOTE 9 – PREFERRED STOCK

The Company has 10,000,000 shares of preferred stock, $.001 par value per share, authorized as of December 31, 2017. Of those shares, 1,000 were designated as Series A and Series B. There were no shares outstanding at any time during the periods covered by these financial statements. The Series A and B designations were transaction specific in 2008 and 2010 and were redeemed in 2014. When outstanding, the shares had a liquidation preference and bore dividends at a rate of 10%, payable in cash or stock, but are no longer applicable. The Company intends to remove the designations in 2018.

NOTE 10 – COMMON STOCK

The Company had 500,000,000 shares of common stock, $.001 par value per share, authorized as of December 31, 2017. There were 29,318,018 and 29,718,867 shares of common stock issued and outstanding at December 31, 2017 and 2016, respectively.

In 2017, the Company purchased and cancelled 500,000 shares held by the previous CEO at a price of $0.78 per share for a total payment of $390,000.

In 2017 the Company issued 24,214 shares in connection with the exercise of employee stock options by former employees. The options were exercised on a net settled basis and no cash proceeds were received.

The Company has a Director Compensation plan covering its independent non-employee Directors. A total of 75,000 and 50,000 shares were granted and issued in the years ended December 31, 2017 and 2016, respectively in connection with this compensation plan. These shares were valued at $87,375 and $51,375, respectively.

In 2016, we issued 384,118 shares of common stock to an unrelated party in a private transaction, the proceeds of which were used to redeem shares of common stock payable to an executive officer.

In 2016, the Company issued 100,000 shares of common stock, valued at $110,000, to Shadron Stastney in connection with the settlement of litigation.

The Company issued 103,754 shares of common stock in 2016 in connection with the cashless exercise of stock options granted in prior years that were about to expire in 2016.

OPTIMIZERx CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 10 – COMMON STOCK (continued)

In 2015, the Company agreed to grant 197,605 fully vested shares of its common stock to two executive officers as bonuses. These shares were not issued at the time, but were recorded as stock payable. The obligation to issue these shares was redeemed for cash in 2016 for a total payment of $232,602.

In 2015, the Company entered into a new capital markets advisory agreement covering a one-year period, which called for 90,000 shares of common stock to be issued as compensation. The first 45,000 shares were issued in September 2015 and valued at $41,400. These shares were amortized over a six-month period. The agreement was cancelled in 2016 and the remaining 45,000 shares were not issued.

In 2014, the Company agreed to grant 337,500 shares of common stock to two executive officers at the time as bonuses based on their efforts to recapitalize the Company. Stock-based compensation related to these bonuses of $570,375 was recorded during the year ended December 31, 2014. These shares were not issued at the time and were recorded as stock payable. The obligation to issue these shares was redeemed in 2016 for cash payments of $397,038. Also in 2014, as part of a capital raise, the Company agreed to grant 200,000 shares of common stock to three executive officers at the time. The shares were part of an equity raise and the issuance was recorded as part of equity issuance costs, so no expense was recorded. In 2016, a total of 150,000 of those shares were redeemed for a cash payment of $177,275 and the remaining 50,000 shares were issued to a former executive officer.

NOTE 11 – STOCK OPTIONS

The Company sponsors a stock-based incentive compensation plan known as the 2013 Equity Compensation Plan (the “Plan”), which was established by the Board of Directors of the Company in June 2013. A total of 1,500,000 shares were initially reserved for issuance under the Plan. The Plan was amended in 2016 to increase the authorized shares to 4,000,000 shares and again in 2018 to increase the authorized shares to 5,500,000. A total of 4,106,250 options were outstanding at December 31, 2016. In addition, a total of 735,105 restricted shares were granted in 2014 and 2015, but not issued at the time. A total 685,015 of these shares were redeemed for cash in 2016, and 50,000 of these shares were issued in 2016. As of December 31, 2017, the Company has no remaining restricted shares owed. The Company had no remaining shares available to grant under the Plan at December 31, 2017.

The Plan allows the Company to grant incentive stock options, non-qualified stock options, stock appreciation right, or restricted stock. The incentive stock options are exercisable for up to ten years, at an option price per share not less than the fair market value on the date the option is granted. The incentive stock options are limited to persons who are regular full-time employees of the Company at the date of the grant of the option. Non-qualified options may be granted to any person, including, but not limited to, employees, independent agents, consultants and attorneys, who the Company's Board or Compensation Committee believes have contributed, or will contribute, to the success of the Company. Non-qualified options may be issued at option prices of less than fair market value on the date of grant and may be exercisable for up to ten years from date of grant. The option vesting schedule for options granted is determined by the Compensation Committee of the Board of Directors at the time of the grant. The Plan provides for accelerated vesting of unvested options if there is a change in control, as defined in the Plan.

Prior to establishment of the Plan, the Board granted options under terms similar to those described in the preceding paragraphs. A total of 25,000 options were outstanding at December 31, 2016 that were granted prior to the establishment of the 2013 Plan, but those options expired in 2017.

The compensation cost that has been charged against income related to options for the years ended December 31, 2017 and 2016, was $815,014 and $384,126, respectively. No income tax benefit was recognized in the income statement and no compensation was capitalized in any of the years presented.

OPTIMIZERx CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 11 – STOCK OPTIONS (continued)

The Company had the following option activity during the years ended December 31, 2017 and 2016:

	Number of Options	Weighted average exercise price	Weighted average remaining contractual life (years)	Aggregate intrinsic value $
Outstanding, January 1, 2016	1,615,000	$ 1.09		
Granted - 2016	2,040,000	$ 1.09		
Exercised - 2016	(485,000)	$ 0.89		
Expired – 2016	(50,000)	$ 1.08		
Outstanding, December 31, 2016	3,120,000	$ 1.12	3.6	
Granted – 2017	1,441,250	$ 0.96		
Exercised – 2017	(130,000)	$ 1.27		