

Alliqua BioMedical, Inc.
Form 10-Q
November 05, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2014

OR

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

For the transition period from _____ to _____

Commission file number: **001-36278**

Alliqua BioMedical, Inc.
(Exact name of Registrant as specified in its charter)

Delaware **58-2349413**
(State or other jurisdiction of incorporation) (I.R.S. Employer Identification Number)

2150 Cabot Blvd. West **19047**
Langhorne, PA
(Address of principal executive office) (Zip Code)

Registrant's telephone number, including area code: (215) 702-8550

Alliqua, Inc.

(Former name,
former address
and former
fiscal year, if
changed since
last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

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

The number of shares of the registrant's common stock, \$0.001 par value, outstanding as of October 31, 2014 was 16,173,437.

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PART I – FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****ALLIQUA BIOMEDICAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 19,887,588	\$ 12,100,544
Accounts receivable	715,624	156,831
Inventory, net	1,099,142	501,469
Prepaid expenses and other current assets	313,590	88,390
Total current assets	22,015,944	12,847,234
Improvements and equipment, net	1,512,563	1,745,248
Intangible assets, net	4,619,963	2,258,477
Goodwill	4,100,295	425,969
Other assets	173,042	174,640
Total assets	\$ 32,421,807	\$ 17,451,568
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 1,101,745	\$ 746,609
Accrued expenses	1,788,999	1,267,899
Payable for distribution rights	33,333	333,333
Deferred revenue	39,000	39,000
Warrant liability	280,157	933,465
Deferred lease incentive liability - current	8,337	8,337
Other current liabilities	4,074	24,821
Total current liabilities	3,255,645	3,353,464
Contingent consideration	2,894,034	-
Deferred lease incentive liability, net of current	86,155	92,408
Deferred tax obligation	63,500	53,000
Total liabilities	6,299,334	3,498,872
Commitments and Contingencies		
Stockholders' Equity		

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Preferred Stock, par value \$0.001 per share, 1,000,000 shares authorized, no shares issued and outstanding	-	-
Common Stock, par value \$0.001 per share, 45,714,286 shares authorized; 16,193,988 and 11,484,191 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively	16,194	11,484
Additional paid-in capital	90,797,392	58,538,491
Accumulated deficit	(64,691,113)	(44,597,279)
Total stockholders' equity	26,122,473	13,952,696
Total liabilities and stockholders' equity	\$ 32,421,807	\$ 17,451,568

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

ALLIQUA BIOMEDICAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue, net of returns, allowances and discounts	\$ 1,493,840	\$ 437,985	\$ 3,121,863	\$ 1,328,911
Cost of revenues	915,811	574,219	2,384,225	1,507,069
Gross profit (loss)	578,029	(136,234)	737,638	(178,158)
Operating expenses				
Selling, general and administrative, (inclusive of stock-based compensation compensation of \$1,779,134 and \$8,875,080 for the three month and nine month periods ended September 30, 2014 and \$496,564 and \$2,898,132 for the three and nine month periods ended September 30, 2013 - see Note 9)	5,480,380	2,095,926	20,083,015	6,532,154
Research and product development	-	33,602	-	63,204
Acquisition-related expenses	61,330	-	546,970	-
Change in fair value of contingent consideration liability	194,034	-	194,034	-
Total operating expenses	5,735,744	2,129,528	20,824,019	6,595,358
Loss from operations	(5,157,715)	(2,265,762)	(20,086,381)	(6,773,516)
Other income (expense)				
Interest expense	-	(292)	(384)	(3,048)
Interest income	8,779	31	22,755	75
Change in value of warrant liability	48,993	32,978	(19,324)	(243,735)
Total other income (expense)	57,772	32,717	3,047	(246,708)
Loss before income tax provision	(5,099,943)	(2,233,045)	(20,083,334)	(7,020,224)
Income tax provision	3,500	3,000	10,500	9,000
Net loss	\$ (5,103,443)	\$ (2,236,045)	\$ (20,093,834)	\$ (7,029,224)

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Basic and diluted net loss per common share	\$ (0.33) \$ (0.31) \$ (1.41) \$ (1.09)
Weighted average shares used in computing basic and diluted net loss per common share	15,666,697	7,105,147	14,269,239	6,452,353	

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

ALLIQUA BIOMEDICAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

(UNAUDITED)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance, December 31, 2013	11,484,191	\$11,484	\$58,538,491	\$(44,597,279)	\$13,952,696
Issuance of common stock for the purchase of Choice Therapeutics, Inc.	273,368	274	1,992,580	-	1,992,854
Issuance of common stock for cash, net of issuance costs of \$602,500	2,139,287	2,139	14,370,364	-	14,372,503
Exercise of common stock options, net of tendered shares	277,150	277	1,243,590	-	1,243,867
Exercise of warrants, net of issuance costs of \$267,174	977,313	977	5,224,610	-	5,225,587
Cashless exercise of warrants	211,295	211	(211)	-	-
Extinguishment of warrant liability	-	-	672,632	-	672,632
Issuance of common stock for services	23,396	23	195,316	-	195,339
Stock-based compensation (A)	836,491	837	9,129,277	-	9,130,114
Net settlement on vesting of restricted stock awards	(77,471)	(77)	(569,208)	-	(569,285)
Warrant exchange	48,968	49	(49)	-	-
Net loss	-	-	-	(20,093,834)	(20,093,834)
Balance, September 30, 2014	16,193,988	\$16,194	\$90,797,392	\$(64,691,113)	\$26,122,473

Includes \$307,189 that was part of accrued expenses as of December 31, 2013 and for the the year then ended, (A) which was credited to equity upon the issuance of 34,086 restricted common shares during the nine months ended September 30, 2014.

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

ALLIQUA BIOMEDICAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

(UNAUDITED)

	Nine Months Ended September 30,	
	2014	2013
Cash Flows From Operating Activities		
Net loss	\$ (20,093,834)	\$ (7,029,224)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	769,128	443,393
Amortization of deferred lease incentive	(6,253)	-
Deferred income taxes	10,500	9,000
Provision for inventory obsolescence	(65,493)	(4,363)
Stock-based compensation expense	8,822,925	2,270,690
Stock issued for services rendered	195,339	627,442
Change in value of warrant liability	19,324	243,735
Fair value adjustment to contingent consideration	194,034	-
Fair value of rent provided by related party	-	32,000
Changes in operating assets and liabilities:		
Accounts receivable	(547,206)	(35,673)
Inventory	(135,219)	17,990
Prepaid expenses and other current assets	(223,602)	108,605
Accounts payable	281,642	(106,092)
Accrued expenses and other current liabilities	599,209	291,004
Net Cash Used in Operating Activities	(10,179,506)	(3,131,493)
Cash Flows From Investing Activities		
Payment for distribution rights	(300,000)	-
Purchase of improvements and equipment	(6,596)	-
Acquisition of business, net of \$474 cash acquired	(1,999,526)	-
Net Cash Used in Investing Activities	(2,306,122)	-
Cash Flows From Financing Activities		
Net proceeds from issuance of common stock	14,372,503	3,291,293
Proceeds from the exercise of stock options	1,243,867	-
Proceeds from the exercise of warrants	5,225,587	-
Payment of withholding taxes related to stock-based employee compensation	(569,285)	-
Net Cash Provided by Financing Activities	20,272,672	3,291,293
Net Increase in Cash and Cash Equivalents	7,787,044	159,800
Cash and Cash Equivalents - Beginning of period	12,100,544	260,357

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Cash and Cash Equivalents - End of period	\$ 19,887,588	\$ 420,157
Supplemental Disclosure of Cash Flows Information		
Cash paid during the period for:		
Interest	\$ 384	\$ 3,048
Non-cash investing and financing activities:		
Cashless warrant exercise	\$ 672,632	\$ -
2013 Bonus awarded in equity	307,189	-
Warrant exchange	49	-
Acquisition of business:		
Current assets, excluding cash and cash equivalents	\$ 408,548	\$ -
Intangibles	2,683,000	-
Goodwill	3,674,326	-
Liabilities assumed	(73,494)	-
Contingent consideration	(2,700,000)	-
Issuance of common stock for acquisition	(1,992,854)	-

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

ALLIQUA BIOMEDICAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Description of Business and Basis of Presentation

Alliqua BioMedical, Inc. (the “Company”) is a provider of advanced wound care solutions. The Company’s primary business strategy is to create superior outcomes for patients, providers, and partners through its hydrogel technology platform and licensed and proprietary products. The Company’s core businesses include advanced wound care and contract manufacturing. The Company seeks to leverage its proprietary hydrogel and licensed technology platform to add value to its own products and those of its partners.

On May 5, 2014, the Company acquired Choice Therapeutics, Inc. (“Choice”), a privately held wound care company.

On June 5, 2014, the Company’s shareholders approved an agreement and plan of merger between the Company and its wholly-owned Delaware subsidiary, Alliqua BioMedical, Inc., pursuant to which the Company merged with and into Alliqua BioMedical, Inc. for the sole purpose of changing the Company’s name to Alliqua BioMedical, Inc. and state of domicile from Florida to Delaware.

Basis of Presentation

The condensed consolidated financial statements contained in this report are unaudited. In the opinion of management, the condensed consolidated financial statements include all adjustments, which are of a normal recurring nature, necessary to present fairly the Company’s financial position as of September 30, 2014 and results of operations for the three and nine months ended September 30, 2014, and cash flows for the nine months ended September 30, 2014. While management believes that the disclosures presented are adequate to make the information not misleading, these unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Company’s latest year-end financial statements, which are included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013 (the “2013 Annual Report”). The results of the Company’s operations for any interim period are not necessarily indicative of the results of operations for any other interim period or for the full year.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries, AquaMed Technologies, Inc., HepaLife Biosystems, Inc. and Choice Therapeutics, Inc. All significant inter-company transactions and accounts have been eliminated in consolidation.

Reclassifications

Certain amounts in prior periods have been reclassified to conform to the current year presentation. Such reclassifications did not have a material effect on the Company's financial condition or results of operations as previously reported.

Significant Accounting Policies and Estimates

The Company's significant accounting policies are disclosed in Note 3 — *Summary of Significant Accounting Policies* in the 2013 Annual Report. Since the date of the 2013 Annual Report, there have been no material changes to the Company's significant accounting policies. The preparation of the condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. These estimates and assumptions include valuing equity securities and derivative financial instruments issued in financing transactions, account receivable reserves, inventory reserves, deferred taxes and related valuation allowances, and the fair values of long lived assets, intangibles, goodwill and contingent consideration. Actual results could differ from the estimates.

Recent Accounting Pronouncements

In June 2014, the FASB issued Accounting Standards Update 2014-12, "Compensation — Stock Compensation: Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period" ("ASU 2014-12"). ASU 2014-12 requires that a performance target that affects vesting of share-based payments and that could be achieved after the requisite service period be treated as a performance condition that affects vesting and as such, should not be reflected in estimating the grant-date fair value of the award. ASU 2014-12 is effective for annual and interim periods beginning after December 15, 2015. This standard is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

2. Net Loss Per Common Share

Basic net loss per common share is computed based on the weighted average number of shares of common stock outstanding during the periods presented. Common stock equivalents, consisting of warrants, stock options, non-vested restricted stock units (“RSUs”), and non-vested shares of restricted stock were not included in the calculation of the diluted loss per share because their inclusion would have been anti-dilutive.

The total common shares issuable upon the exercise of stock options, warrants, non-vested restricted stock units, and non-vested restricted stock are as follows:

	As of September 30,	
	2014	2013
Stock options	4,581,384	3,842,802
Warrants	2,675,121	2,032,314
Non-vested restricted stock units	-	70,753
Non-vested restricted stock	234,323	-
Total	7,490,828	5,945,869

3.

Acquisitions

On May 5, 2014, the Company acquired all outstanding equity interest of Choice Therapeutics, Inc., a provider of innovative wound care products using proprietary Therabond 3D® Antimicrobial Barrier Systems.

The Company’s initial cash payment for this acquisition was \$2.0 million and approximately \$2.0 million in stock. In addition to the initial cash payment, the Company may pay up to \$5.0 million in contingent consideration which may be earned based upon the acquired company achieving specific performance metrics over the next three twelve month periods ended April 30, 2017. See Note 12 – Fair Value Measurement for details related to fair value of the contingent consideration.

The assets and liabilities of the acquired business were included in the Company’s condensed consolidated balance sheet based upon estimated fair values on the date of acquisition as determined in a preliminary purchase price allocation, using available information and making assumptions management believes are reasonable. The Company is still in the process of completing its valuation of the assets, both tangible and intangible, and liabilities acquired. The condensed consolidated statements of operations include the results of the Choice operations beginning May 6, 2014. The Company’s preliminary allocation of purchase price for this acquisition is included in the table below, which summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

Consideration:	
Common stock	\$ 1,992,854
Cash paid	2,000,000
Fair value of contingent consideration	2,700,000
Total consideration	6,692,854
Cash and cash equivalents	474
Inventory	396,961
Other assets	11,587
Tradenames	111,000
Technology	2,396,000
Customer relationships	176,000
Goodwill	3,674,326
Other liabilities	(73,494)
Net assets acquired	\$ 6,692,854

The amortization period of intangible assets acquired ranges from 3 to 12 years. The Company recorded approximately \$3.7 million of goodwill in connection with this acquisition, reflecting the strategic fit and revenue and earnings growth potential of this business.

Revenues included in the condensed consolidated statement of operations for each of the three and nine month periods ended September 30, 2014 from this acquisition for the period subsequent to the closing of the transaction was approximately \$577,000 and \$900,000, respectively. Loss from operations included in the consolidated statement of operations for each of the three and nine month periods ended September 30, 2014 from this acquisition for the period subsequent to the closing of the transaction was approximately \$162,000 and \$179,000, respectively. Included in the loss from operations in each the three and nine month periods ended September 30, 2014 is approximately \$194,000 relating to adjustments to the fair value of contingent consideration described below.

The following unaudited pro forma results of operations for the three and nine months ended September 30, 2014 and 2013 assumes that the above acquisition was made at the beginning of the year prior to the acquisition. The pro forma results were calculated applying the Company's accounting policies and reflect the elimination of transaction costs related to the acquisition that were included in the Company's results of operations for the three and nine month periods ended September 30, 2014. The unaudited pro forma information does not purport to be indicative of the results that would have been obtained if the acquisitions had actually occurred at the beginning of the year prior to acquisition, nor of the results that may be reported in the future.

	Pro forma Results for the Three Months Ended September 30,		Pro forma Results for the Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues	\$ 1,493,840	\$ 886,647	\$ 3,811,659	\$ 2,641,465

Loss from operations \$ (4,902,351) \$ (2,394,923) \$ (20,201,822) \$ (7,247,418)

During the three and nine month periods ended September 30, 2014, the Company incurred acquisition-related costs of approximately \$61,000 and \$546,000, respectively, in connection with due diligence, professional fees, and other expenses. Additionally, the Company adjusts the fair value of certain acquisition-related contingent consideration liabilities on a quarterly basis. For the three and nine month periods ended September 30, 2014, the adjustments resulted in a net increase of approximately \$194,000 to the Company's acquisition-related contingent consideration liability and corresponding increase in operating expenses.

4. Inventory

Inventory consists of the following:

	September 30, 2014	December 31, 2013	
Raw materials	\$ 360,546	\$ 174,176	
Work in process	156,105	57,030	
Finished goods	593,492	346,843	
Less: Inventory reserve	(11,001) (76,580)
Total	\$ 1,099,142	\$ 501,469	

5. Improvements and Equipment, net

Improvements and equipment consist of the following:

	Useful Life (Years)	September 30, 2014	December 31, 2013	
Machinery and equipment	10	\$ 2,869,453	\$ 2,869,453	
Office furniture and equipment	3-10	51,440	44,844	
Leasehold improvements	(A)	228,021	228,021	
		3,148,914	3,142,318	
Less: Accumulated depreciation and amortization		(1,636,351) (1,397,070)
Improvements and equipment, net		\$ 1,512,563	\$ 1,745,248	

(A) Leasehold improvements are amortized over the shorter of the remaining lease term or estimated useful life.

Depreciation and amortization expense was \$78,626 and \$72,196 for the three months ended September 30, 2014 and 2013, respectively. Depreciation and amortization expense was \$239,281 and \$223,703 for the nine months ended September 30, 2014 and 2013, respectively.

6. Intangible Assets

The gross carrying amount and accumulated amortization of intangible assets are as follows:

September 30, 2014

	Useful Life (Years)	Gross Amount	Accumulated Amortization	Impairment	Net Carrying Amount
Technology	10	\$5,396,000	\$ (1,799,833)	\$ -	\$3,596,167
Customer relationships	12	776,000	(291,482)	-	484,518
Distribution rights	5.27	400,000	(77,833)	-	322,167
Tradename	3	111,000	(15,417)	-	95,583
Non-compete	1	208,333	(86,805)	-	121,528
		\$6,891,333	\$ (2,271,370)	\$ -	\$4,619,963

December 31, 2013

	Useful Life (Years)	Gross Amount	Accumulated Amortization	Impairment	Net Carrying Amount
In process research and development		\$8,100,000	\$ -	\$(8,100,000)	\$ -
Technology	10	3,000,000	(1,475,000)	-	1,525,000
Customer relationships	12	600,000	(245,834)	-	354,166
Distribution rights	5.27	400,000	(20,689)	-	379,311
		\$12,100,000	\$ (1,741,523)	\$(8,100,000)	\$2,258,477

Amortization expense attributable to intangible assets for the three months ended September 30, 2014 and 2013 was \$232,670 and \$89,142, respectively. Amortization expense attributable to intangible assets for the nine months ended September 30, 2014 and 2013 was \$529,847 and \$264,142, respectively. During the year ended December 31, 2013, the Company recognized an impairment charge of \$8,100,000 related to its in process research and development. Amortization expense for the years ending December 31, 2014, 2015, 2016, 2017, and 2018 is expected to be \$232,670, \$791,790, \$722,346, \$697,679, and \$683,704, respectively.

7. Accrued Expenses

Accrued expenses consist of the following:

	September 30, 2014	December 31, 2013
Salaries, benefits and incentive compensation	\$ 1,112,018	\$ 1,036,771
Professional fees	224,906	83,317
Royalty fees	314,588	-
Inventory	-	127,786
Other	137,487	20,025
Total accrued expenses	\$ 1,788,999	\$ 1,267,899

8. Commitments and Contingencies

Employment Agreements for Former Employees

On March 14, 2014, a former executive of the Company resigned. Upon the executive's resignation, the Company entered into a general release and severance agreement with this executive, pursuant to which, the employment agreement between the executive and the Company, dated September 28, 2012 was terminated, except for provisions relating to confidentiality and restrictive covenants. The Company provided the executive with: (i) payments totaling \$385,000; (ii) the full and immediate vesting of all outstanding stock options and RSUs granted to this executive, with such stock options remaining exercisable for a period of two years following the date of resignation; and (iii) continued health insurance coverage during the six-month severance period. Of the total payments due to this executive, \$210,000 was related to 2013 performance and included in accrued expenses as of December 31, 2013. The expense of the accelerated vesting of outstanding stock options and RSUs was \$873,411 and is included in stock-based compensation for the nine months ended September 30, 2014.

In March 2014, the Company entered into a general release and severance agreements with two employees, pursuant to which each employee's employment with the Company was terminated effective immediately. The Company provided the employees with severance payments totaling \$158,875 and accelerated vesting of one tranche of stock options granted to one of the employees, with such options remaining exercisable for a period of 90 days. The expense of the accelerated vesting of stock options was \$24,171 and is included in stock-based compensation for the nine months ended September 30, 2014.

Cooperative and License Agreements

On July 15, 2011, the Company entered into a license agreement with Noble Fiber Technologies, LLC, whereby the Company has the exclusive right and license to manufacture and distribute "Silverseal Hydrogel Wound Dressings" and "Silverseal Hydrocolloid Wound Dressings". The license is granted for ten years with an option to be extended for consecutive renewal periods of two years. An upfront license fee of \$100,000 was expensed in 2011 as a selling, general and administrative expense. Royalties are to be paid equal to 9.75% of net sales of licensed products. The agreement calls for minimum royalties to be paid each calendar year as follows: 2013 - \$200,000, 2014 - \$400,000; 2015 - \$500,000; and 2016 - \$600,000. Total royalties charged to selling, general and administrative expense for the three months ended September 30, 2014 and 2013 were \$100,000 and \$50,000, respectively. Total royalties charged to selling, general and administrative expense for the nine months ended September 30, 2014 and 2013 were \$300,000 and \$150,000, respectively. \$297,999 is included in accrued expenses as of September 30, 2014 in connection with this agreement.

Sorbion Distributor Agreement

On September 23, 2013, the Company entered into a distributor agreement (the "Sorbion Agreement") with Sorbion GmbH & Co KG, pursuant to which the Company became the exclusive distributor of sorbion sachet S, sorbion sana and new products with hydrokinetic fibers as primary dressings in the United States, Canada and Latin America, subject to certain exceptions.

The initial term of the agreement ends on December 31, 2018, and will be extended for additional one year terms until December 31, 2023, so long as the Company and Sorbion agree in September as to the minimum annual purchase amount for the calendar year that ends four years from the calendar year of such September.

In order to maintain its exclusivity, the Company must purchase the following minimum amounts, in Euros, of the products for the indicated calendar year:

Calendar Year	Minimum Annual Purchase Amount
2014	500,000 Euros
2015	1,000,000 Euros
2016	2,500,000 Euros
2017	4,000,000 Euros

Since the Company must purchase the minimum amounts in Euros, the equivalent U.S. dollar expenditure will be subject to fluctuations in foreign currency exchange rates.

The minimum annual purchase amounts in U.S. Dollars for each calendar year in the period from 2014-2017, based on the exchange rate as of September 30, 2014, are approximately \$634,000, \$1,269,000, \$3,171,000, and \$5,074,000, respectively.

If the Company fails to purchase products in amounts that meet or exceed the minimum annual purchase amount for a calendar year, it may cure such minimum purchase failure by paying Sorbion in cash an amount equal to the minimum annual purchase amount for such calendar year less the amount the Company paid to Sorbion for the products purchased for such calendar year. If the Company does not cure a minimum purchase failure with a makeup payment for a calendar year, Sorbion may terminate the Company's exclusivity with respect to the products and grant the Company non-exclusive rights with respect to the products. If the Company does not cure a minimum purchase failure for two subsequent calendar years, Sorbion may terminate the agreement. The Company will not be required to meet the minimal annual purchase amount if Sorbion fails to supply the Company with the products in accordance with the agreement. Sorbion may also terminate the Company's exclusivity with respect to the products if the Company does not cure a material breach of the agreement within 30 days.

Carolyn Distribution Rights Agreement

In September 2013, the Company entered into an agreement with Carolyn Company (“Carolyn”) pursuant to which, the Company purchased the distribution rights to the Sorbion sachet and sana products from Carolyn. The Company is committed to pay Carolyn (i) an aggregate payment of \$400,000 in 12 equal monthly payments beginning November 2013, and (ii) if the Company sells at least \$600,000 of certain Sorbion sachet products in the 2014 calendar year, \$50,000 in January 2015. This transaction was recorded as the purchase of distribution rights and was recorded as an intangible asset, subject to amortization over the remaining useful life of sixty-three months, and a corresponding liability of \$400,000. In consideration of this agreement, an upfront fee of \$50,000 for sales and training materials was expensed in the year ended December 31, 2013 as a selling, general and administrative expense. As of September 30, 2014, the balance of distribution rights payable was \$33,333.

Celgene License, Marketing and Development and Supply Agreement

In November 2013, the Company entered into a License, Marketing and Development Agreement (the “License Agreement”) with Anthrogenesis Corporation, d/b/a Celgene Cellular Therapeutics (“CCT”), an affiliate of Celgene Corporation (“Celgene”), pursuant to which CCT granted the Company an exclusive, royalty-bearing license in its intellectual property for certain placental based products, including ECMs, an extracellularmatrix derived from the human placenta, and Biovance®, CCT’s proprietary wound coverings produced from decellularized, dehydrated humanamniotic membrane, to develop and commercialize ECMs and Biovance in the United States. Following the commencement of commercial sales of the licensed products, the Company will pay CCT annual license fees, designated amounts when certain milestone events occur and royalties on all sales of licensed products, with such amounts being variable and contingent on various factors. The initial term of the License Agreement ends on November 14, 2023, unless sooner terminated pursuant to the termination rights under the License Agreement, and will extend for additional two-year terms unless either party gives written notice within a specified period prior to the end of a term. The License Agreement may be terminated (i) by CCT if the Company or any of its affiliates challenges the validity, enforceability or scope of certain enumerated CCT patents anywhere in the world; (ii) by either party if there is a final decree that a licensed product infringed on the intellectual property of a third party; (iii) by either party for breach of the License Agreement, if the breach is not cured within a specified period after receiving written notice of the breach; or (iv) by either party if the other party is the subject of insolvency proceedings, either voluntary or involuntary. In addition, the License Agreement is terminable on a product-by-product basis, and not with respect to the entire License Agreement (i) by CCT in the second year of the License Agreement, and by either CCT or the Company in the third year of the License Agreement and beyond, if the Company fails to meet certain sales thresholds and (ii) by either party upon written notice if outside legal counsel recommends discontinuance of commercialization of a product because of significant safety, legal, or economic risk as a result of a claim, demand or action or as a result of a change in the interpretation of law by a governmental or regulatory authority. The License Agreement also contains mutual confidentiality and indemnification obligations for the Company and CCT. In September 2014, the Company entered into a First Amendment to the License Agreement (the “Amended License Agreement”), pursuant to which the Company received the right to market Biovance for podiatric and orthopedic applications. The Amended License Agreement also amends certain terms and the related schedule for milestone payments to CCT.

In November 2013, the Company also entered into a Supply Agreement (the “Biovance Supply Agreement”) with CCT, pursuant to which CCT shall supply the Company with the Company’s entire requirements of Biovance for distribution and sale in the United States. The Biovance Supply Agreement will be terminated automatically upon the termination of the License Agreement and may otherwise be terminated (i) by CCT upon six months’ prior written notice, (ii) by the Company upon six months’ prior written notice if CCT fails to deliver at least a specified portion of a firm purchase order by the required delivery date specified in the order on at least a specified number of occasions in a specified period; (iii) by either party for breach of the Biovance Supply Agreement, if the breach is not cured within a specified period after receiving written notice of the breach; or (iv) by either party if the other party is the subject of insolvency proceedings, either voluntary or involuntary. On April 10, 2014, the Company and CCT entered into an amendment to the Biovance Supply Agreement in order to amend the pricing schedule.

In April 2014, the Company entered into a Supply Agreement (the “ECM Supply Agreement”) with CCT, pursuant to which CCT shall, as soon as reasonably practicable after the date that CCT obtains regulatory clearance or approval in the United States for any of CCT’s extracellular matrix products derived from the human placenta (each an “ECM”), supply and sell to the Company all of the Company’s requirements of ECMs, in finished form and final packaging, for exploitation in the United States under the License Agreement. The ECM Supply Agreement will automatically terminate upon the termination or expiration of the License Agreement and may otherwise be terminated (i) by CCT upon six months’ prior written notice, (ii) by the Company upon six months’ prior written notice if CCT fails to deliver at least a specified portion of a firm purchase order by the required delivery date specified in the order on at least a specified number of occasions in a specified period; (iii) by either party for breach of the ECM Supply Agreement, if the breach is not cured within a specified period after receiving written notice of the breach; or (iv) by either party if the other party is the subject of insolvency proceedings, either voluntary or involuntary. The ECM Supply Agreement also contains mutual confidentiality and indemnification obligations for the Company and CCT.

Litigation, Claims and Assessments

The Company is subject to periodic lawsuits, investigations and claims that arise in the ordinary course of business.

On February 27, 2014, ConvaTec Inc. filed suit against the Company and four of its current employees (each a former employee of ConvaTec Inc.), requesting injunctive relief for allegations involving breach of contract, tortious interference with employment agreements, unfair competition and common law conspiracy. ConvaTec Inc. is seeking, among other things, to enjoin the Company from continuing to employ a sales manager who is a former employee of ConvaTec, Inc. in a position related to wound care products and two sales representatives in positions related to wound care products in certain geographic areas.

The Company fully disputes the allegations of ConvaTec Inc. and the relief sought to the fullest extent permitted by the law and believes them to be wholly without merit.

9. Stockholders' Equity

Common Stock Issuances

In April 2014, the Company entered into a securities purchase agreement pursuant to which the Company issued an aggregate of 2,139,287 shares of common stock, and five year warrants to purchase an aggregate of 427,858 shares of common stock at an exercise price of \$10.50 per share, in exchange for aggregate consideration of approximately \$14,975,000. The warrants become exercisable on October 15, 2014. In connection with the financing, the Company paid \$598,500 in placement agent fees. Administrative fees for the escrow agent of \$4,000 were also deducted from gross proceeds.

2011 Plan

The Company maintains the 2011 Long-Term Incentive Plan (the "2011 Plan") that provides for the granting of stock options, RSUs, restricted stock and other awards to employees, directors and others. A total of 1,828,571 shares of common stock have been authorized for issuance under the 2011 Plan, of which, as of September 30, 2014, 21,300 shares were available for future issuances.

2014 Plan

On April 10, 2014 and June 5, 2014, the Company's Board of Directors and the Company's shareholders approved the 2014 Long-Term Incentive Plan (the "2014 Plan"), respectively. The 2014 Plan provides for the granting of stock options, RSUs, restricted stock and other awards to employees, directors and others. A total of 2,000,000 shares of common stock are reserved for award under the 2014 Plan, of which, as of September 30, 2014, 1,990,000 shares were available for future issuances.

Stock-Based Compensation

The following table summarizes stock-based compensation expense:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Options	\$ 1,450,527	\$ 473,200	\$ 6,361,366	\$ 2,271,842
Warrants	13,496	7,447	208,530	7,447
Restricted stock units	-	(34,395)	180,715	(8,599)
Restricted stock	378,442	50,312	2,267,653	627,442
Total stock-based compensation	\$ 1,842,465	\$ 496,564	\$ 9,018,264	\$ 2,898,132

For the three months ended September 30, 2014, \$63,331 of stock-based compensation is included in cost of revenues and \$1,779,134 is included in selling, general and administrative expenses in the condensed consolidated statements of operations. For the nine months ended September 30, 2014, \$143,184 of stock-based compensation is included in cost of revenues and \$8,875,080 is included in selling, general and administrative expenses in the condensed consolidated statements of operations. For the three and nine months ended September 30, 2014, \$496,564 and \$2,898,132 of stock-based compensation is included in selling, general and administrative expense in the condensed consolidated statements of operations, respectively.

Restricted Stock

The following table summarizes the restricted stock issued as compensation during the nine months ended September 30, 2014:

Issuance Date	Grantee Type	Shares Issued	Vesting Term	Grant Date Value
01/06/14	Officer	369,395	[1]	\$2,582,072
01/17/14	Consultant	1,107	Immediate	10,007
01/27/14	Consultant	13,000	Immediate	118,300
03/06/14	Employee	8,300	[2]	74,700
03/09/14	Consultant	1,108	Immediate	10,005
03/21/14	Consultant	1,136	Immediate	10,008
04/02/14	Consultant	1,219	Immediate	10,008
05/29/14	Consultant	1,000	Immediate	7,000
06/16/14	Consultant	1,525	Immediate	10,004
06/18/14	Consultant	1,558	Immediate	10,002
07/01/14	Consultant	1,743	Immediate	10,005
	Restricted stock - total	401,091		\$2,852,111

[1] Vests in equal quarterly installments, with one-eighth vesting on January 6, 2014 and the remaining vesting on the first day of each calendar quarter thereafter.

[2] 2,425 shares vest on each of March 6, 2014 and April 1, 2014. 1,725 shares vest on each of April 1, 2015 and April 1, 2016.

On March 14, 2014, in connection with the resignation of the chief executive officer of a wholly-owned subsidiary of the Company, the Company accelerated the vesting of 17,688 RSUs that, prior to the modification, contained performance conditions which, for accounting purposes, were deemed improbable of being achieved. As a result, the Company recorded stock-based compensation expense of \$157,069 during the nine months ended September 30, 2014, which represented the modification date value of the modified RSUs.

As of September 30, 2014, there was \$584,458 of unrecognized stock-based compensation expense related to restricted stock which will be amortized over a weighted average period of 0.7 years.

A summary of common stock award activity during the nine months ended September 30, 2014 is presented below:

	Number of Shares	Weighted Average Grant Date Fair Value	Total Grant Date Fair Value
Non-vested, December 31, 2013	35,376	\$ 2.19	\$77,387
Granted	401,091	7.11	2,852,111
Vested	(202,144)	6.36	(1,284,645)
Forfeited	-	-	-
Non-vested, September 30, 2014	234,323	\$ 7.02	\$1,644,853

Warrants

See Note 9, Stockholders' Equity – Common Stock Issuances for details related to new investor warrant issuances.

There were no compensatory warrants issued during the nine months ended September 30, 2014.

On April 11, 2014, the Company entered into a letter agreement with certain of the holders of warrants to purchase shares of the Company's common stock that were granted pursuant to that certain securities purchase agreement, dated November 18, 2013, by and among the Company and the investors signatory thereto. The Company received approximately \$5,293,000 from the exercising holders upon the exercise of the warrants, and the Company issued a total of 930,313 shares of common stock to the exercising holders pursuant to the terms of the warrants. In connection with the exercising holders exercising their warrants pursuant to the letter agreement, the Company paid \$265,000 in placement agent fees and \$2,500 of professional fees for the escrow agent, both of which were deducted from gross proceeds. The warrants, which were exercised at a price of \$5.69 per share, had an aggregate intrinsic value of \$1,544,320.

During the nine months ended September 30, 2014, away from exercised warrants discussed above, the Company issued an aggregate of 258,295 shares of common stock to several holders of warrants who elected to exercise warrants to purchase an aggregate of 400,137 shares of common stock (353,137 shares on a "cashless" basis under the terms of the warrants and 47,000 shares for cash proceeds of \$199,280). The warrants had exercise prices of \$4.24 per share (241,060 gross shares), \$3.02 per share (65,362 gross shares) and \$2.19 per share (93,715 gross shares). The aggregate intrinsic value of the warrants exercised was \$1,971,481 for the nine months ended September 30, 2014.

As of September 30, 2014, there was \$2,778 of unrecognized stock-based compensation expense related to compensatory warrants that are subject to non-employee mark-to-market adjustments and will be amortized over a weighted average period of 0.1 years.

A summary of the warrant activity, including common stock purchase warrants, during the nine months ended September 30, 2014 is presented below:

Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Life in	Intrinsic Value
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			Years	
Outstanding, December 31, 2013	3,822,557	\$ 5.12		
Issued	427,858	10.50		
Exercised	(1,330,450)	5.03		
Cancelled	(244,844)	7.88		
Outstanding, September 30, 2014	2,675,121	\$ 5.76	3.9	\$ 992,672
Exercisable, September 30, 2014	2,236,694	\$ 4.86	3.8	\$ 989,362

The following table presents information related to warrants at September 30, 2014:

Exercise Price	Warrants Outstanding Number of Warrants	Warrants Exercisable	
		Average Remaining Life in Years	Weighted Exercisable Number of Warrants
\$ 2.19	108,572	3.0	108,572
3.02	74,286	2.4	74,286
3.50	2,286	2.6	2,286
4.24	780,191	3.7	780,191
4.38	188,444	4.1	181,401
4.81	8,889	4.1	8,889
5.69	1,040,880	4.1	1,037,354
7.00	18,286	0.6	18,286
8.75	25,429	0.8	25,429
10.50	427,858	-	-
	2,675,121	3.8	2,236,694

As of September 30, 2014, five-year warrants to purchase an aggregate of 75,429 shares of common stock at an exercise price of \$2.19 per share were deemed to be a derivative liability. See Note 12 – Fair Value Measurement.

Stock Options

During the nine months ended September 30, 2014, ten-year options to purchase an aggregate of 965,520 shares of common stock at exercise prices ranging from \$5.09 to \$9.05 with an aggregate grant date value of \$5,991,640 were granted to directors and employees. Most of the grants vest over three years on the anniversaries of the grant date. Of the above, options to purchase 686,500 shares of common stock were granted pursuant to the 2011 Plan. The grant date value is being amortized over the vesting term.

In applying the Black-Scholes option pricing model to stock options granted, the Company used the following weighted average assumptions:

Three Months Ended September 30,		Nine Months Ended September 30,	
2014	2013	2014	2013

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Risk free interest rate	1.96	%	1.69	%	1.92	%	1.26	%
Expected term (years)	5.98		6.04		5.94		5.63	
Expected volatility	100.56	%	99.87	%	102.36	%	99.17	%
Expected dividends	0.00	%	0.00	%	0.00	%	0.00	%

The risk-free interest rate is based on rates of treasury securities with the same expected term as the options. The Company uses the "simplified method" to calculate the expected term of employee and director stock-based options. The expected term used for consultants is the contractual life. The Company is utilizing an expected volatility figure based on a review of the Company's historical volatility, over a period of time, equivalent to the expected life of the instrument being valued. The expected dividend yield is based upon the fact that the Company has not historically paid dividends, and does not expect to pay dividends in the near future.

The weighted average estimated fair value per share of the options granted during the three and nine months ended September 30, 2014 was \$4.29 and \$6.21, respectively. The weighted average estimated fair value per share of the options granted during the three and nine months ended September 30, 2013 was \$2.27 and \$2.07, respectively.

During the nine months ended September 30, 2014, the Company issued an aggregate of 277,150 shares of common stock to several holders of options who elected to exercise options to purchase an aggregate of 304,623 shares of common stock (57,143 shares on a "cashless" basis under the terms of the warrants and 247,480 shares for cash proceeds of \$1,243,867). The options had exercise prices of \$4.38 per share (222,964 gross shares), \$5.47 per share (11,428 gross shares), \$6.34 per share (22,857 gross shares) and \$6.56 per share (47,374 gross shares). The aggregate intrinsic value of the options exercised was \$920,201 for the nine months ended September 30, 2014.

As of September 30, 2014, there was \$5,837,439 of unrecognized stock-based compensation expense related to stock options which will be amortized over a weighted average period of 1.7 years, of which \$42,260 is subject to non-employee mark-to-market adjustments.

A summary of the stock option activity during the nine months ended September 30, 2014 is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Life in Years	Intrinsic Value
Outstanding, December 31, 2013	4,985,586	\$ 6.47		
Granted	965,520	7.77		
Exercised	(304,623)	4.91		
Forfeited	(1,065,099)	7.20		
Outstanding, September 30, 2014	4,581,384	\$ 6.68	8.0	\$ 1,035,407
Exercisable, September 30, 2014	2,185,063	\$ 5.41	6.9	\$ 1,014,931

The following table presents information related to stock options at September 30, 2014:

Options Outstanding	Options Exercisable	Weighted Average	Options Outstanding	Options Exercisable
Number of	Number of	Life in	Number of	Number of
Exercise Price	Options	Years	Options	Options
\$3.28	279,227	8.4	279,227	
3.50	117,125	9.1	117,125	
3.94	7,619	9.1	7,619	
4.38	919,083	4.6	877,230	
5.09	10,000	-	-	
5.17	10,000	-	-	
5.29	14,000	9.8	776	
5.45	80,000	-	-	
5.47	97,713	8.6	65,142	
5.69	34,286	4.1	34,286	
5.91	27,142	6.3	17,142	
6.34	6,058	6.2	6,058	
6.56	445,064	8.4	197,484	
6.62	25,000	-	-	
6.79	10,000	-	-	
6.82	780,535	9.2	256,013	
6.83	10,000	-	-	
6.95	10,000	-	-	
6.99	241,520	9.3	35,380	
7.71	25,000	-	-	
7.90	10,000	-	-	
7.94	6,000	-	-	
8.50	25,000	9.4	6,250	
8.57	20,000	-	-	
8.75	732,565	8.3	236,571	
8.97	1,664	9.5	1,664	
8.99	30,000	-	-	
9.00	288,164	9.4	9,152	
9.04	20,000	-	-	
9.05	35,000	-	-	
10.94	262,245	8.6	36,570	
11.38	1,145	4.0	1,145	
26.69	229	3.7	229	
	4,581,384	6.9	2,185,063	

10.

Related Party

On January 6, 2014, the Company entered into an option cancellation and release agreement with two former directors, pursuant to which each of the parties agreed to cancel options previously granted to purchase 278,096 shares of common stock of the Company at exercise prices ranging from \$6.34 to \$9.19. In exchange for the cancellation of the options, the Company granted each individual 194,667 shares of common stock of the Company pursuant to 2011 Plan. The incremental expense for the exchange was \$98,915 and is included in stock-based compensation for the nine months ended September 30, 2014.

11.

Concentration of Risk

Revenues for the three months ended September 30, 2014 and 2013, and accounts receivable as of September 30, 2014 from our largest customers, both contract manufacturing customers, were as follows:

Customer	% of Total Revenue		Accounts Receivable September 30, 2014	
	2014	2013		
A	22 %	43 %	24	%
B	6 %	21 %	12	%

Revenue for the nine months ended September 30, 2014 and 2013, were as follows:

Customer	% of Total Revenue	
	2014	2013
A	31 %	51 %
B	8 %	15 %

12. Fair Value Measurement

Fair value is defined as the price that would be received upon selling an asset or the price paid to transfer a liability on the measurement date. It focuses on the exit price in the principal or most advantageous market for the asset or liability in an orderly transaction between willing market participants. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair values are as follows:

Level 1: Observable prices in active markets for identical assets and liabilities.

Level 2: Observable inputs other than quoted prices in active markets for identical assets and liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

During the nine months ended September 30, 2014, warrants to purchase an aggregate of 82,971 shares of common stock were exercised. These warrants had an aggregate exercise date fair value of \$672,632 which was credited to equity. The Company recorded a loss on the change in fair value of these warrant of \$202,393 during the nine months ended September 30, 2014. The Company recomputed the fair value of these warrant using the Binomial option pricing model (Level 3 inputs) using the following assumptions: expected volatility of 102.63%, risk-free rate

of 1.19%-1.22%, expected term of 3.78-3.81 years, and expected dividends of 0.00%.

On September 30, 2014, the Company recomputed the fair value of its remaining warrant liability as \$280,157 using the Binomial option pricing model (Level 3 inputs) using the following assumptions: expected volatility of 100.56%, risk-free rate of 1.07%, expected term of 3.11 years, and expected dividends of 0.00%. The Company recorded a gain on the change in fair value of these warrant liabilities of \$183,069 during the nine months ended September 30, 2014.

The following table sets forth a summary of the changes in the fair value of Level 3 warrant liabilities that are measured at fair value on a recurring basis:

Warrant Liabilities

Beginning balance as of January 1, 2014	\$933,465
Change in fair value of warrant liability	19,324
Value of warrants exercised	(672,632)
Ending balance as of September 30, 2014	\$280,157

Contingent Consideration

Beginning balance as of January 1, 2014	\$-
Fair value of contingent consideration	2,700,000
Change in fair value of contingent consideration	194,034
Ending balance as of September 30, 2014	\$2,894,034

Assets and liabilities measured at fair value on a recurring or nonrecurring basis are as follows:

	September 30, 2014		
	Level 1	Level 2	Level 3
Liabilities:			
Warrant liabilities	\$-	\$ -	\$280,157
Contingent consideration	\$-	\$ -	\$2,894,034
Total liabilities	\$-	\$ -	\$3,174,191

	December 31, 2013		
	Level 1	Level 2	Level 3
Liabilities:			
Warrant liabilities	\$-	\$ -	\$933,465
Total liabilities	\$-	\$ -	\$933,465

Warrants that contain exercise reset provisions and contingent consideration liabilities are Level 3 derivative liabilities measured at fair value on a recurring basis using pricing models for which at least one significant assumption is unobservable as defined in ASC 820. The fair value of contingent consideration liabilities that was classified as Level 3 in the table above was estimated using a discounted cash flow technique with significant inputs that are not observable in the market and thus represents a Level 3 fair value measurement as defined in ASC 820. The significant inputs in the Level 3 measurement not supported by market activity include the probability assessments of expected future cash flows related to the acquisitions, appropriately discounted considering the uncertainties associated with the obligation, and as calculated in accordance with the terms of the acquisition agreements. The development and determination of the unobservable inputs for Level 3 fair value measurements and the fair value calculations are the responsibility of the Company's chief financial officer and are approved by the chief executive officer.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes above.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements," which include information relating to future events, future financial performance, strategies, expectations, competitive environment and regulation. Words such as "may," "should," "could," "would," "predict," "potential," "continue," "expect," "anticipate," "future," "intend," "plan," "estimate," and similar expressions, as well as statements in future tense, identify forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results and may not be accurate indications of when such performance or results will actually be achieved. Forward-looking statements are based on information we have when those statements are made or our management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

the uncertainty regarding the adequacy of our liquidity to pursue our complete business objectives;

inadequate capital;

our plans to make significant additional outlays of working capital before we expect to generate significant revenues and the uncertainty regarding when we will begin to generate significant revenues, if we are able to do so;

loss or retirement of key executives;

unfavorable decisions on product reimbursement;

adverse economic conditions and/or intense competition;

loss of a key customer or supplier;

entry of new competitors and products;

adverse federal, state and local government regulation;

technological obsolescence of our products;

technical problems with our research and products;

price increases for supplies and components; and

the inability to carry out research, development and commercialization plans.

For a discussion of these and other risks that relate to our business and investing in shares of our common stock, you should carefully review the risks and uncertainties described under the heading “Part I – Item 1A. Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2013. The forward-looking statements contained in this Quarterly Report on Form 10-Q are expressly qualified in their entirety by this cautionary statement. We do not undertake any obligation to publicly update any forward-looking statement to reflect events or circumstances after the date on which any such statement is made or to reflect the occurrence of unanticipated events.

Overview

We are a provider of advanced wound care solutions. Through our hydrogel technology platform and licensed and proprietary products, we seek to create superior outcomes for patients, providers, and partners. Our core businesses include advanced wound care and contract manufacturing. We leverage our proprietary hydrogel and licensed technology to add value to our own products and those of our partners.

On May 5, 2014, we acquired Choice Therapeutics, Inc. a provider of innovative wound care products using proprietary Therabond 3D® Antimicrobial Barrier Systems, for aggregate consideration of approximately \$2,000,000 in cash and 273,368 shares of our common stock. In addition, the acquisition agreement provides for contingent consideration of up to \$5,000,000 payable in shares of common stock or cash, to be earned based upon revenues from the sale of certain Choice Therapeutics, Inc. products over the next three twelve month periods ending April 30, 2017.

Results of Operations

Three Months Ended September 30, 2014 Compared to the Three Months Ended September 30, 2013

Overview. For the three months ended September 30, 2014 and 2013, we had a net loss of \$5,103,443 and \$2,236,045, respectively, which was inclusive of non-cash stock-based compensation of \$1,842,465 and \$496,564, respectively. We expect our future growth to consist of both organic and acquisition growth from product sales. Product revenue for the three months ended September 30, 2014 increased by \$444,220, or 81%, compared to product revenue for the three months ended June 30, 2014.

Revenues, net. For the three months ended September 30, 2014 revenues increased by \$1,055,855, or 241%, to \$1,493,840 from \$437,985 for the three months ended September 30, 2013. The increase in our overall revenue was primarily due to increase in product sales.

The components of revenue were as follows for the three months ended September 30, 2014 and 2013:

	Three Months Ended September 30,	
	2014	2013
Revenues		
Contract manufacturing	\$ 500,612	\$ 373,710
Products	993,228	64,275
Total revenues, net	\$ 1,493,840	\$ 437,985

Our growth rates for the three months ended September 30, 2014 and 2013 were as follows:

	Three Months Ended September 30,			
	2014	2013		
Revenue growth	\$ 1,055,855	\$ 64,195		
% Growth over prior year	241.1	%	17.2	%
Comprised of:				
% of organic growth*	109.3	%	17.2	%
% of acquisition growth**	131.8	%	0.0	%
	241.1	%	17.2	%

*Represents growth from contract manufacturing and sales of our hydrogel, sorbion, and Biovance products.

**Represents growth from the sale of products acquired in the purchase of Choice Therapeutics in May 2014.

Gross profit (loss). Our gross profit was \$578,029 for the three months ended September 30, 2014 compared to gross loss of \$136,234 for the three months ended September 30, 2013. The improved results for the three months ended September 30, 2014, as compared to 2013 was primarily due to the greater volume of product sales as product revenue typically commands higher gross profit margins. We expect our future gross profit to increase as a result of products sales becoming a higher proportion of our total sales.

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The components of cost of revenues are as follows for the three months ended September 30, 2014 and 2013:

	Three Months Ended September 30,	
	2014	2013
Cost of revenues		
Stock-based compensation	\$ 63,331	\$ -
Compensation and benefits	180,142	164,898
Depreciation and amortization	146,736	151,211
Materials	430,921	141,753
Equipment, production and other expenses	94,681	116,357
Total cost of revenues	\$ 915,811	\$ 574,219

Selling, general and administrative expenses. The following table highlights selling, general and administrative expenses by type for the three months ended September 30, 2014 and 2013:

	Three Months Ended September 30,	
	2014	2013
Selling, general and administrative expenses		
Stock-based compensation	\$ 1,779,134	\$ 496,564
Compensation and benefits	1,733,641	616,993
Marketing	202,313	156,927
Royalty fees	114,087	50,000
Other expenses	1,651,205	775,442
Total selling, general and administrative expenses	\$ 5,480,380	\$ 2,095,926

Selling, general and administrative expenses increased by \$3,384,454, to \$5,480,380 for the three months ended September 30, 2014, as compared to \$2,095,926 for the three months ended September 30, 2013.

Stock-based compensation increased by \$1,282,570, to \$1,779,134 for the three months ended September 30, 2014, as compared to \$496,564 for the three months ended September 30, 2013. Compensation and benefits increased by \$1,116,648, to \$1,733,641 for the three months ended September 30, 2014, as compared to \$616,993 for the three months ended September 30, 2013. The increase in both stock-based compensation and compensation and benefits was due to the hiring of executive officers, various senior sales and marketing executives, and a direct sales force. We expect our stock-based compensation expense to decrease in future quarters.

Other selling, general and administrative expenses increased by \$875,763, to \$1,651,205 for the three months ended September 30, 2014, as compared to \$775,442 for the three months ended September 30, 2013. Other selling, general and administrative expenses consist of costs associated with our selling efforts and general management, including consulting, recruiting, information technology, travel and professional fees such as legal and accounting expenses. These costs were largely driven by the recruitment of our direct sales force and other corporate employees to support our anticipated growth, as well an increase in business development and selling, general and administrative expenses for our newly acquired subsidiary, Choice Therapeutics.

Acquisition-related expenses. During the three months ended September 30, 2014, we incurred acquisition-related costs of \$61,330 in connection with due diligence, professional fees, and other expenses related to the acquisition of Choice Therapeutics. Additionally, we adjusted the fair value of our acquisition-related contingent consideration liability by \$194,034.

Nine Months Ended September 30, 2014 Compared to the Nine Months Ended September 30, 2013

Overview. For the nine months ended September 30, 2014 and 2013, we had a net loss of \$20,093,834 and \$7,029,224, respectively, which was inclusive of non-cash stock-based compensation of \$9,018,264 and \$2,898,132,

respectively.

Revenues, net. For the nine months ended September 30, 2014 revenues increased by \$1,792,952, or 135%, to \$3,121,863 from \$1,328,911 for the nine months ended September 30, 2013. The increase in our overall revenue was primarily due to an increase in product sales. We expect our future growth to consist of both organic and acquisition growth from product sales.

The components of revenue were as follows for the nine months ended September 30, 2014 and 2013:

	Nine Months Ended September 30,	
	2014	2013
Revenues		
Contract manufacturing	\$ 1,467,322	\$ 1,256,090
Products	1,654,541	72,821
Total revenues, net	\$ 3,121,863	\$ 1,328,911

Our growth rates for the nine months ended September 30, 2014 and 2013 were as follows:

	Nine Months Ended September 30,			
	2014		2013	
Revenue growth	\$ 1,792,952		\$ 500,651	
% Growth over prior year	134.9	%	60.4	%
Comprised of:				
% of organic growth*	67.2	%	60.4	%
% of acquisition growth**	67.7	%	0.0	%
	134.9	%	60.4	%

*Represents growth from contract manufacturing and sales of our hydrogel, sorbion, and Biovance products.

**Represents growth from the sale of products acquired in the purchase of Choice Therapeutics in May 2014.

Gross profit (loss). Our gross profit was \$737,638 for the nine months ended September 30, 2014 compared to gross loss of \$178,158 for the nine months ended September 30, 2013. The improved results for the nine months ended September 30, 2014, as compared to 2013 was primarily due to the greater volume of product sales as product revenue typically commands higher gross profit margins. We expect our future gross profit to increase as a result of products sales becoming a higher proportion of our total sales.

The components of cost of revenues are as follows for the nine months ended September 30, 2014 and 2013:

	Nine Months Ended September 30,	
	2014	2013
Cost of revenues		
Stock-based compensation	\$ 143,184	\$ -
Compensation and benefits	511,556	376,809
Depreciation and amortization	440,209	450,346
Materials	985,163	344,721
Equipment, production and other expenses	304,113	335,193
Total cost of revenues	\$ 2,384,225	\$ 1,507,069

Selling, general and administrative expenses. The following table highlights selling, general and administrative expenses by type for the nine months ended September 30, 2014 and 2013:

	Nine Months Ended September 30,	
	2014	2013

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Selling, general and administrative expenses		
Stock-based compensation	\$ 8,875,080	\$ 2,898,132
Compensation and benefits	5,132,438	1,566,573
Marketing	1,134,105	272,264
Royalty fees	316,588	150,000
Other expenses	4,624,804	1,645,185
Total selling, general and administrative expenses	\$ 20,083,015	\$ 6,532,154

Selling, general and administrative expenses increased \$13,550,861 to \$20,083,015 for the nine months ended September 30, 2014, as compared to \$6,532,154 for the nine months ended September 30, 2013.

Stock-based compensation increased by \$5,976,948, to \$8,875,080 for the nine months ended September 30, 2014, as compared to \$2,898,132 for the nine months ended September 30, 2013. Stock-based compensation for the nine months ended September 30, 2014 was favorably impacted by the forfeiture of stock options of a consultant resulting in a reversal of expense of \$396,612. Compensation and benefits increased \$3,565,865 to \$5,132,438 for the nine months ended September 30, 2014, as compared to \$1,566,573 for the nine months ended September 30, 2013. The increase in both stock-based compensation and compensation and benefits was due to the hiring of executive officers, various senior sales and marketing executives, and a direct sales force. We expect our stock-based compensation expense to decrease in future periods.

Marketing expenses increased by \$861,841 to \$1,134,105 for the nine months ended September 30, 2014, as compared to \$272,264 for the nine months ended September 30, 2013. The increase was primarily due to increased efforts to market our proprietary and licensed products through tradeshows, sample products, and market research. Also included in the nine months ended September 30, 2014 are marketing expenses associated with the launch of our Biovance product and products acquired in our acquisition of Choice Therapeutics.

Other selling, general and administrative expenses increased by \$2,979,619 to \$4,624,804 for the nine months ended September 30, 2014, as compared to \$1,645,185 for the nine months ended September 30, 2013. Other selling, general and administrative expenses consist of costs associated with our selling efforts and general management, including consulting, recruiting, information technology, travel and professional fees such as legal and accounting expenses. These costs were largely driven by the recruitment of our direct sales force and other corporate employees to support our anticipated growth, as well an increase in business development and selling, general and administrative expenses for our newly acquired subsidiary, Choice Therapeutics.

Acquisition-related expenses. During the nine month ended September 30, 2014, we incurred acquisition-related costs of \$546,970 in connection with due diligence, professional fees, and other expenses related to the acquisition of Choice Therapeutics. Additionally, we adjusted the fair value of our acquisition-related contingent consideration liability by \$194,034.

Liquidity and Capital Resources

As of September 30, 2014, we had cash and cash equivalents totaling \$19,887,588 compared to \$12,100,544 at December 31, 2013. The increase was largely attributable to net financing proceeds of \$14,372,503, proceeds from the exercise of stock options and warrants totaling \$6,469,454 offset by cash used in operating activities of \$10,179,506 during the nine months ended September 30, 2014.

Net cash flow used in operating activities was \$10,179,506 and \$3,131,493 for the nine months ended September 30, 2014 and 2013, respectively. The increase was primarily attributable to an increase in net loss excluding stock compensation and other non-cash items of \$10,154,330.

Net cash used in investing activities was \$2,306,122 for the nine months ended September 30, 2014 compared to no cash used in investing activities in the nine months ended September 30, 2013. Cash used in investing activities included our acquisition of Choice Therapeutics for approximately \$2.0 million, net of cash acquired. Also contributing to the increase were cash payments related to the purchase of distributions rights for Sorbion products of \$300,000.

Net cash flow generated from financing activities was \$20,272,672 for the nine months ended September 30, 2014, compared to cash flow generated from financing activities of \$3,291,293 for the nine months ended September 30, 2013. During the nine months ended September 30, 2014, we received proceeds from stock option and warrant exercises of \$6,469,454 and \$14,372,503 of proceeds from the issuance of common stock. This was offset by the payment of withholding taxes related to stock-based compensation of \$569,285. During the nine months ended September 30, 2013, we received proceeds from the issuance of common stock of \$3,291,293.

At September 30, 2014, current assets totaled \$22,015,944 and current liabilities totaled \$3,255,645, as compared to current assets totaling \$12,847,234 and current liabilities totaling \$3,353,464 at December 31, 2013. As a result, we had working capital of \$18,760,299 at September 30, 2014 compared to working capital of \$9,493,770 at December 31, 2013.

Our cash requirements have historically been for product development, clinical trials, marketing and sales activities, finance and administrative costs, capital expenditures and overall working capital. We have experienced negative operating cash flows since inception and have funded our operations primarily from sales of common stock and other securities.

Liquidity Outlook

We have revamped our strategy to focus on being a provider of wound care solutions as well as continuing to be a contract manufacturer. The use of proceeds from our financings will largely be used to support the sales and marketing of our wound care solutions and potential acquisitions. We have restructured our senior management team with the goal of maximizing the potential for success in achieving our sales and marketing goals. We have hired new executive officers, various senior sales and marketing executives, and a direct sales force to sell our wound care products. We expect to continue to attend trade shows and seek other avenues to market our products.

We continue to focus our efforts on expanding our product offerings. We are seeking complementary products to our hydrogels in an effort to expand our offerings. In addition, we are seeking ways to modify products' size, shape or thickness in order to appeal to a broader marketplace.

The implementation of our growth strategy will continue to result in an increase in our fixed cost structure. Due to the time delay between outlays for working capital expenditures, such as costs to acquire rights to additional products, merger and acquisition activity, the hiring and training of sales agents and personnel, pre-launch marketing costs, the purchasing of inventory, and the billing and collection of revenue, we expect negative operating cash flows to continue at least for the balance of 2014.

We believe that our cash on hand and our cash generated from operations will be sufficient to fund our business for at least the next 12 months. However, our future results of operations involve significant risks and uncertainties. Factors that could affect our future operating results and cause actual results to vary materially from expectations include, but are not limited to, potential demand for our products, unfavorable decisions on product reimbursement, risks from competition, regulatory approval of our new products, technological change, and dependence on key personnel.

In order to complete our future growth strategy, including the expanding of our product offering, we will require additional equity and/or debt financing. On August 5, 2014, we filed a shelf registration statement on Form S-3 with the United States Securities and Exchange Commission ("SEC"). The shelf statement was declared effective by the SEC on September 25, 2014. This registration statement will enable us to offer and sell to the public from time to time in one or more offerings, up to \$100,000,000 of common and preferred stock, debt securities, warrants, units or any combination thereof. The terms of any securities offered under the registration statement, and the intended use of the net proceeds resulting therefrom, will be established at the times of the offerings and will be described in prospectus supplements filed with the SEC at the times of the offerings. There can be no assurance that we will be successful in securing additional capital in sufficient amounts and on terms favorable to us.

Off Balance Sheet Arrangements

As of September 30, 2014, we had no off-balance sheet transactions, arrangements, obligations (including contingent obligations), or other relationships with unconsolidated entities or other persons that have, or may have, a material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Critical Accounting Policies

There have been no significant changes to the Company's critical accounting policies and estimates from the information provided in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in the Annual Report on Form 10-K for the year ended December 31, 2013.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of September 30, 2014, we conducted an evaluation, under the supervision and participation of management including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934, as amended). There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based upon this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective at the reasonable assurance level as of September 30, 2014.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2014 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may become involved in lawsuits, investigations and claims that arise in the ordinary course of business. Except as set forth below, as of the date of this filing, we are not party to any material litigation nor are we aware of any such threatened or pending legal proceedings that we believe could have a material adverse effect on our business, financial condition or operating results.

There have been no material developments in the legal proceeding that we previously discussed in Part II, Item 1 “Legal Proceedings” in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2014.

There are no material proceedings in which any of our directors, officers or affiliates or any registered or beneficial shareholder of more than 5% of our common stock is an adverse party or has a material interest adverse to our interest.

ITEM 1A. RISK FACTORS

During the three months ended September 30, 2014 there were no material changes to the risk factors previously discussed in Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2013, except for the following:

Decisions in reimbursement levels by governmental or other third-party payors for procedures using our products may have an adverse impact on acceptance of our products.

We believe that our products will be purchased principally by hospitals or physicians, which typically bill various third-party payors, such as governmental programs (e.g., Medicare and Medicaid), private insurance plans and managed care plans, for the healthcare services provided to their patients. The ability of our future customers to obtain appropriate reimbursement for products and services from third-party payors is critical to the success of medical product companies because it affects which products customers purchase and the prices they are willing to pay. Adverse decisions relating to our products by administrators of these systems in coverage or reimbursement issues, would have an adverse impact on the acceptance of our products and the prices which our customers are willing to pay for them.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth information with respect to purchases by us of our equity securities during the three months ended September 30, 2014:

Issuer's Purchases of Equity Securities

Period	Total number of shares (or units) purchased ⁽¹⁾	Average price paid per share (or unit) ⁽²⁾	Total number of shares (or units) purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs
7/1/2014 to 7/31/2014	20,367	\$ 5.74	-	-
8/1/2014 to 8/31/2014	-	-	-	-
9/1/2014 to 9/30/2014	-	-	-	-
Total	20,367	\$ 5.74	-	-

(1) Includes 20,367 shares of our common stock surrendered by David Johnson in connection with the vesting of restricted stock on July 1, 2014.

(2) For purposes of determining the number of shares to be surrendered to meet tax withholding obligations, the price per share deemed to be paid was the closing price of our common stock on the NASDAQ Capital Market on the applicable vesting date.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

See “Index to Exhibits” for a description of our exhibits.

SIGNATURES

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

ALLIQUA BIOMEDICAL, INC.

Date: November 5, 2014 By: /s/ David Johnson
Name: David Johnson
Title: Chief Executive Office
(Principal Executive Officer)

By: /s/ Brian Posner
Name: Brian Posner
Title: Chief Financial Officer
(Principal Financial Officer)

Index to Exhibits

Exhibit No.	Description
3.1	Certificate of Incorporation of Alliqua BioMedical, Inc., incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K filed on June 11, 2014.
3.2	Bylaws of Alliqua BioMedical, Inc., incorporated by reference to Exhibit 3.2 to Current Report on Form 8-K filed on June 11, 2014.
3.3	Certificate of Amendment to Certificate of Incorporation of Alliqua BioMedical, Inc., incorporated by reference to Exhibit 3.3 to Current Report on Form 8-K filed on June 11, 2014.
10.1 ^{*^}	First Amendment to License, Marketing and Development Agreement, dated September 30, 2014, by and between Alliqua, Inc. and Anthrogenesis Corporation, d/b/a Celgene Cellular Therapeutics (“CCT”).
10.2 ^{*^}	Second Amendment to Supply Agreement, dated September 30, 2014, by and between Alliqua, Inc. and Anthrogenesis Corporation, d/b/a CCT.
31.1*	Certification of Chief Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer Pursuant to Section 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer Pursuant to Section 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101 ^{**}	The following materials from the Company’s Annual Report on Form 10-Q for the three months ended September 30, 2014, formatted in XBRL (eXtensible Business Reporting Language), (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Stockholders’ Equity, (iv) Consolidated Statements of Cash Flows, and (v) Notes to the Consolidated Financial Statements.

* Filed herewith.

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

^ Certain portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission under a confidential treatment request pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.