NANOVIRICIDES, INC.
Form 10-Q
November 14, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended September 30, 2016

Commission File Number: ***333-148471***

NANOVIRICIDES, INC.

(Exact name of Company as specified in its charter)

NEVADA	76-0674577
(State or other jurisdiction) of incorporation or organization)	(IRS Employer Identification No.)

1 Controls Drive

Shelton, Connecticut 06484

(Address of principal executive offices and zip code)

(203) 937-6137

(*Company's telephone number, including area code)*

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

Indicate by check mark whether the Company 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 Company was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the Company is a larger accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer ¨ Accelerated filer ¨
Non-accelerated filer x Smaller reporting Company ¨

Indicate by check mark whether the Company is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

As of November 14, 2016, there were approximately 58,203,000 shares of common stock of the registrant issued and outstanding.

NanoViricides, Inc.

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NanoViricides, Inc.

Balance Sheets

	September 30, 2016 (Unaudited)	June 30, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 21,912,927	$ 24,162,185
Prepaid expenses	207,563	219,458
Total Current Assets	22,120,490	24,381,643
PROPERTY AND EQUIPMENT		
Property and equipment	13,636,018	13,611,583
Accumulated depreciation	(2,014,102)	(1,850,816)
Property and equipment, net	11,621,916	11,760,767
TRADEMARK AND PATENTS		
Trademark and patents	458,954	458,954
Accumulated amortization	(69,554)	(67,487)
Trademark and patents, net	389,400	391,467
OTHER ASSETS		
Security deposits	3,515	3,515
Service agreements	87,348	96,026
Total Other Assets	90,863	99,541
Total Assets	$ 34,222,669	$ 36,633,418
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 269,388	$ 96,524
Accounts payable – related parties	658,439	767,454
Debentures payable - Series B, net of discount	5,688,609	5,474,737
Derivative liability - Series B debentures	120,123	203,030
Accrued expenses	35,649	35,602
Deferred interest payable - current portion	166,667	166,667
Total Current Liabilities	6,938,875	6,744,014
LONG TERM LIABILITIES:		
Debentures payable - Series C, net of discount	3,323,258	3,133,668
Derivative liability - Series C, debentures	325,267	343,673
Derivative liability - warrants	3,285,204	3,197,182
Deferred interest payable - long term portion	124,999	166,667
Total Long Term Liabilities	7,058,728	6,841,190

Total Liabilities	13,997,603	13,585,204
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Series A Convertible Preferred stock, $0.001 par value, 8,500,000 shares designated, 4,098,810 and 4,091,094 shares issued and outstanding, at September 30, 2016 and June 30, 2016, respectively	4,099	4,091
Common stock, $0.001 par value; 150,000,000 shares authorized, 58,202,708 and 58,179,699 shares issued and outstanding at September 30, 2016 and June 30, 2016, respectively	58,202	58,179
Additional paid-in capital	88,048,410	87,810,145
Accumulated deficit	(67,885,645)	(64,824,201)
Total Stockholders' Equity	20,225,066	23,048,214
Total Liabilities and Stockholders' Equity	$ 34,222,669	$ 36,633,418

See accompanying notes to the financial statements

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Nanoviricides, Inc.

Statements of Operations

(Unaudited)

	For the Three Months Ended September 30, 2016	For the Three Months Ended September 30, 2015
OPERATING EXPENSES		
Research and development	$ 1,452,137	$ 1,282,072
General and administrative	988,312	942,979
Total operating expenses	2,440,449	2,225,051
LOSS FROM OPERATIONS	(2,440,449)	(2,225,051)
OTHER INCOME (EXPENSE):		
Interest income	14,176	8,825
Interest expense	(245,000)	(245,000)
Discount on convertible debentures	(403,462)	(333,710)
Change in fair value of derivatives	13,291	1,487,982
Other (Expense) income, net	(620,995)	918,097
LOSS BEFORE INCOME TAXES	(3,061,444)	(1,306,954)
INCOME TAX PROVISION	-	-
NET LOSS	$ (3,061,444)	$ (1,306,954)
NET LOSS PER COMMON SHARE		
- Basic	$ (0.05)	$ (0.02)
- Diluted	$ (0.05)	$ (0.02)
Weighted average common shares outstanding		
- Basic	58,179,949	57,274,315
- Diluted	58,179,949	57,274,315

See accompanying notes to the financial statements

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NanoViricides, Inc.

Statement of Changes in Stockholders' Equity

For the period from July 1, 2016 through September 30, 2016

(Unaudited)

	Series A Preferred Stock: Par $0.001		Common Stock: Par $0.001				
	Number of Shares	Amount	Number of Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
Balance, June 30, 2016	4,091,094	$ 4,091	58,179,699	$ 58,179	$ 87,810,145	$ (64,824,201)	$ 23,048,214
Series A Preferred Shares issued for employee stock compensation	7,716	8	-	-	182,890	-	182,898
Common Shares issued for consulting and legal services rendered	-	-	16,232	16	26,984	-	27,000
Warrants issued to Scientific Advisory Board	-	-	-	-	17,148	-	17,148
Common Shares issued for Directors fees	-	-	6,777	7	11,243	-	11,250
Net loss	-	-	-	-	-	(3,061,444)	(3,061,444)
Balance, September 30, 2016	4,098,810	$ 4,099	58,202,708	$ 58,202	$ 88,048,410	$ (67,885,645)	$ 20,225,066

See accompanying notes to the financial statements

Nanoviricides, Inc.

Statements of Cash Flows

(Unaudited)

	For the Three Months Ended September 30, 2016	For the Three Months Ended September 30, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(3,061,444)	$(1,306,954)
Adjustments to reconcile net loss to net cash used in operating activities		
Preferred shares issued as compensation and for services	182,898	182,522
Common shares issued as compensation and for services	38,250	41,550
Warrants granted to Scientific Advisory Board	17,148	8,745
Depreciation	163,286	161,606
Amortization	2,067	2,067
Change in fair value of derivative liability	(13,291)	(1,487,982)
Amortization of debt discount on convertible debentures	403,462	333,710
Changes in operating assets and liabilities:		
Prepaid expenses	11,895	50,932
Other assets	8,678	19,449
Accounts payable	172,864	(30,975)
Accounts payable - related party	(109,015)	422,091
Accrued expenses	47	(8,920)
Deferred interest payable	(41,668)	(41,667)
NET CASH USED IN OPERATING ACTIVITIES	(2,224,823)	(1,653,826)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(24,435)	(333,664)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,249,258)	(1,987,490)
Cash and cash equivalents at beginning of period	24,162,185	31,467,748
Cash and cash equivalents at end of period	$21,912,927	$29,480,258

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:

Interest paid	$286,667	$286,667
Income tax paid	$-	$-
NON CASH FINANCING AND INVESTING ACTIVITIES:		
Common Stock issued upon cashless exercise of stock options	$-	$313

See accompanying notes to the financial statements

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NANOVIRICIDES, INC.

September 30, 2016 AND 2015

NOTES TO THE FINANCIAL STATEMENTS

(Unaudited)

Note 1 - Organization and Nature of Business

NanoViricides, Inc. was incorporated under the laws of the State of Colorado on July 25, 2000 as Edot-com.com, Inc. which was organized for the purpose of conducting internet retail sales. On April 1, 2005, Edot-com.com, Inc. was incorporated under the laws of the State of Nevada for the purpose of re-domiciling as a Nevada corporation. On May 12, 2005, the corporations were merged and Edot-com.com, Inc., the Nevada corporation, became the surviving entity.

On June 1, 2005, Edot-com.com, Inc. ("ECMM") acquired Nanoviricides, Inc., a privately owned Florida corporation ("NVI"), pursuant to an Agreement and Plan of Share Exchange (the "Exchange"). Nanoviricides, Inc. was incorporated under the laws of the State of Florida on May 12, 2005.

Pursuant to the terms of the Exchange, ECMM acquired NVI in exchange for an aggregate of 80,000,000 newly issued shares of ECMM common stock resulting in an aggregate of 100,000,000 shares of ECMM common stock issued and outstanding. NVI then became a wholly-owned subsidiary of ECMM. The ECMM shares were issued to the NVI shareholders on a pro rata basis, on the basis of 4,000 shares of the Company's common stock for each share of NVI common stock held by such NVI shareholder at the time of the Exchange.

As a result of the Exchange transaction, the former NVI stockholders held approximately 80% of the voting capital stock of the Company immediately after the Exchange. For financial accounting purposes, this acquisition was a reverse acquisition of ECMM by NVI, under the purchase method of accounting, and was treated as a recapitalization with NVI as the acquirer. Accordingly, the financial statements have been prepared to give retroactive effect to May 12, 2005 (date of inception), of the reverse acquisition completed on June 1, 2005, and represent the operations of NVI.

On June 28, 2005, NVI was merged into its parent ECMM and the separate corporate existence of NVI ceased. Effective on the same date, Edot-com.com, Inc. changed its name to NanoViricides, Inc. and its stock symbol to "NNVC", respectively.

NanoViricides, Inc. (the “Company”), is a nano-biopharmaceutical company whose business goals are to discover, develop and commercialize therapeutics to advance the care of patients suffering from life-threatening viral infections. NanoViricides is unique in the bio-pharma field in that it possesses its own state of the art facilities for the design, synthesis, analysis and characterization of the nanomedicines that we develop, as well as for production scale-up, and e-GMP-like production in quantities needed for human clinical trials. The biological studies such as the effectiveness, safety, bio-distribution and Pharmacokinetics/Pharmacodynamics on our drug candidates are performed by external collaborators and contract organizations.

We are a company with several drugs in various stages of early development. Our drugs are based on several patents, patent applications, provisional patent applications, and other proprietary intellectual property held by TheraCour Pharma, Inc. (“TheraCour”), to which we have the necessary exclusive licenses in perpetuity. The first agreement we executed with TheraCour on September 1, 2005, gave us an exclusive, worldwide license for the treatment of the following human viral diseases: Human Immunodeficiency Virus (HIV/AIDS), Hepatitis B Virus (HBV), Hepatitis C Virus (HCV), Herpes Simplex Virus (HSV), Influenza and Asian Bird Flu Virus.

On February 15, 2010 the Company executed an Additional License Agreement with TheraCour. Pursuant to the Additional License Agreement, the Company was granted exclusive licenses, in perpetuity, for technologies, developed by TheraCour, for the development of drug candidates for the treatment of Dengue viruses, Ebola/Marburg viruses, Japanese Encephalitis, viruses causing viral Conjunctivitis (a disease of the eye) and Ocular Herpes. As consideration for obtaining these exclusive licenses, we agreed to pay a onetime licensing fee equal to 2,000,000 shares (adjusted for the 3.5 to 1 reverse split) of the Company’s Series A Convertible Preferred Stock (the “Series A Preferred Stock”). The Series A Preferred Stock is convertible, only upon sale or merger of the Company, or the sale of or license of substantially all of the Company’s intellectual property, into shares of the Company’s common stock at the rate of 3.5 shares of common stock for each share of Series A Preferred Stock. The Series A Preferred Stock has a preferred voting preference at the rate of nine votes per share. The Series A Preferred Stock do not contain any rights to dividends, have no liquidation preference, and are not to be amended without the Holder’s approval. The 2,000,000 shares were valued at the par value of $2,000.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation – Interim Financial Information

The accompanying unaudited interim financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission for Interim Reporting. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The unaudited interim financial statements furnished reflect all adjustments (consisting of normal recurring accruals) which are, in the opinion of management, considered necessary for a fair presentation of the results for the interim periods presented. Interim results are not necessarily indicative of the results for the full year. The accompanying financial statements and the information included under the heading "Management's Discussion and Analysis or Plan of Operation" should be read in conjunction with our Company's audited financial statements and related notes included in our Company's Form 10-K for the fiscal year ended June 30, 2016 filed with the SEC on September 16, 2016.

For a summary of significant accounting policies, see the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2016 filed on September 16, 2016.

Net Loss per Common Share

Basic net loss per common share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per common share is computed by dividing net loss by the weighted average number of shares of common stock and potentially outstanding shares of common stock during the period to reflect the potential dilution that could occur from common shares issuable through stock options, warrants, convertible preferred stock, and convertible debentures.

The following table shows the number of potentially outstanding dilutive common shares excluded from the diluted net loss per common share calculation as they were anti-dilutive:

	Potentially Outstanding Dilutive Common Shares	
	For the Three Months	For the Three Months

	Ended September 30, 2016	Ended September 30, 2015
Warrants	6,633,848	5,993,823
Total potentially outstanding dilutive common shares	6,633,848	5,993,823

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In addition, the Company has issued Convertible Debentures to investors. Coupon interest payable quarterly related to the Series B debentures is payable in cash or shares of Common Stock at the average of the open and close value on the date such interest payment is due at the option of the Holder. The Holders have elected to receive coupon interest in cash for the three months ended September 30, 2016 and 2015. Two of these Holders of the Series B debentures are controlled by Dr. Milton Boniuk, a director of the Company.

At September 30, 2016, the number of potentially dilutive shares of the Company's common stock into which the Series B debentures can be converted based upon the conversion price of $3.50 is 1,714,286. Pursuant to the redemption provisions of the Series C Debentures, the Company, at its sole option, shall have the right, but not the obligation, to repurchase the Debenture at any time prior to the Maturity Date (the "Redemption"). If the Company intends to repurchase the Debenture, and if the closing bid price of the Common Stock is greater than $5.25 on the Redemption Date, unless the Holder, on or prior to the Redemption Date, elects to receive the "Redemption Payment", as that term is defined herein, the Company shall pay to the Holder: (i) 952,381 shares of Common Stock in consideration of the exchange of the principal amount of the Debenture; and (ii) any and all accrued coupon interest. If on or prior to the Redemption Date, the Holder elects to receive the Redemption Payment, or the closing bid price of the Common Stock is less than $5.25, the Company shall issue to the Holder: (i) the principal amount of the Debenture; (ii) any accrued coupon interest; (iii) additional interest of 7% per annum for the period from the date of issuance of the Debenture to the Redemption Date; and (iv) warrants to purchase 619,048 shares of Common Stock which shall expire in three years from the date of issuance at an exercise price of $6.05 per share of Common Stock (the "Redemption Warrants", and collectively with (i) – (iv), the "Redemption Payment"). The Company shall use its best efforts to register the shares underlying the Redemption Warrants under a "shelf" registration statement, provided same is available to the Company, in accordance with the provisions of the Securities Act. Coupon interest payable quarterly related to the Series C Debenture is payable in cash or shares of common stock at the average of the open and close value on the date such interest payment is due at the option of the Holder. At September 30, 2016, the number of potential dilutive shares of the Company's common stock into which the Series C debentures can be converted based upon the conversion provisions contained in the debenture is 952,381.

The Company has also issued 4,098,810 shares Series A Preferred Stock to investors and others as of September 30, 2016. Only in the event of a "change of control" of the Company, each Series A preferred share is convertible to 3.5 shares of its new common stock. A "Change of Control" is defined as an event in which the Company's shareholders become 60% or less owners of a new entity as a result of a change of ownership, merger or acquisition. In the absence of a Change of Control event, the Series A convertible Preferred Stock is not convertible into common stock, and does not carry any dividend rights or any other financial effects. At September 30, 2016, the number of potentially dilutive shares of the Company's common stock into which these Series A Preferred shares can be converted into is 14,345,835, and is not included in diluted earnings per share since the shares are contingently convertible only upon a Change of Control.

The following represents a reconciliation of the numerators and denominators of the basic and diluted per share calculations for loss from continuing operations:

	For the three months ended	
	September 30, 2016	September 30, 2015
Calculation of basic loss per share of common stock:		
Net loss attributable to common stockholders	$ (3,061,444)	$ (1,306,954)
Denominator for basic weighted average shares of common stock	58,179,949	57,274,315
Basic loss per share of common stock	$ (0.05)	$ (0.02)
Calculation of diluted loss per share of common stock:		
Net loss attributable to common stockholders	$ (3,061,444)	$ (1,306,954)
Add: Income impact of assumed conversion of Debentures	-	-
Net loss attributable to common stockholders plus assumed conversions	$ (3,061,444)	$ (1,306,954)
Denominator for basic weighted average shares of common stock	58,179,949	57,274,315
Incremental shares from assumed conversions of Debentures payable	-	-
Denominator for diluted weighted average shares of common stock	58,179,949	57,274,315
Diluted loss per share of common stock	$ (0.05)	$ (0.02)

Series B and Series C debentures were excluded from the loss per share calculation for the three months ended September 30, 2016 and September 30, 2015 because the impact is anti-dilutive.

Recently Issued Accounting Pronouncements

In March 2016, the FASB issued ASU No. 2016-09, “Stock Compensation (topic 718)”, which includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. The standard is effective for annual periods beginning after December 15, 2016, with early adoption permitted. The Company is currently in the process of assessing the impact of the ASU on its financial statements.

In August 2014, the FASB issued ASU No. 2014-15, “Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern” (“ASU 2014-15”). ASU 2014-15 is intended to define management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. Specifically, ASU 2014-15 provides a definition of the term substantial doubt and requires an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). It also requires certain disclosures when substantial doubt is alleviated as a result of consideration of management’s plans and requires an express statement and other disclosures when substantial doubt is not alleviated. The new standard will be effective for reporting periods beginning after December 15, 2016, with early adoption permitted. Management is currently evaluating the impact of the adoption of ASU 2014-15 on the Company’s financial statements and disclosures.

In November 2014, the FASB issued ASU 2014-16, “Derivatives and Hedging (Topic 815).” ASU 2014-16 addresses whether the host contract in a hybrid financial instrument issued in the form of a share should be accounted for as debt or equity. ASU 2014-16 is effective for annual periods beginning after December 15, 2015 and interim periods within those fiscal years. ASU 2014-16 did not have a material impact on the Company’s financial statements and disclosures.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30), “Simplifying the Presentation of Debt Issuance Costs,” which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This ASU requires retrospective adoption and will be effective for fiscal years beginning after December 15, 2015 and for interim periods within those fiscal years. This guidance does not have a material impact on our financial statements.

Note 3 - Financial Condition

The Company’s financial statements for the interim period ended September 30, 2016 have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities and commitments in the normal course of business.

The Company has an accumulated deficit at September 30, 2016 of $67,885,645. In addition, the Company has not generated any revenues and no revenues are anticipated in the foreseeable future. Since May 2005, the Company has been engaged exclusively in research and development activities focused on developing targeted antiviral drugs. The Company has not yet commenced any product commercialization. Such losses are expected to continue for the foreseeable future and until such time, if ever, as the Company is able to attain sales levels sufficient to support its operations. There can be no assurance that the Company will achieve or maintain profitability in the future. As of September 30, 2016 the Company had cash and cash equivalents of $21,912,927. The Company’s Series B Convertible Debenture, in the amount of $6 million, matures on February 1, 2017. The Holder(s), at their option, may convert some or all of the principal balance and accrued interest if any, into a number of restricted shares of common stock of the Company equal to the outstanding balance being converted divided by 3.5. Any principal balance not being converted will be paid in cash on February 1, 2017. The Company has sufficient capital to continue its business for more than one year, at the current rate of expenditure.

While the Company continues to incur significant operating losses with significant capital requirements, the Company has been able to finance its business through sale of its securities. The Company has in the past adjusted its priorities and goals in line with the cash on hand and capital availability. The Company believes it can adjust its priorities of drug development and its plan of operations as necessary, if it is unable to raise additional funds.

Note 4 - Related Party Transactions

Related Parties

Related parties with whom the Company had transactions are:

Related Parties	**Relationship**
Anil R. Diwan	Chairman, President, significant stockholder and Director
Eugene Seymour	CEO, significant stockholder, Director
TheraCour Pharma, Inc.	An entity owned and controlled by a significant stockholder
InnoHaven, LLC	An entity owned and controlled by a significant stockholder
Milton Boniuk, MD	Director and significant stockholder

	For the Three Months Ended	
	September 30, 2016	September 30, 2015
Property and Equipment		
During the reporting period, TheraCour Pharma, Inc. acquired property and equipment on behalf of the Company from third party vendors and sold such property and equipment, at cost, to the Company	$17,995	$ 7,901

As of

	September 30, 2016	June 30, 2016
Account Payable – Related Party		
Pursuant to an Exclusive License Agreement we entered into with TheraCour Pharma, Inc., (TheraCour), the Company was granted exclusive licenses in perpetuity for technologies developed by TheraCour for the virus types: HIV, HCV, Herpes, Asian (bird) flu, Influenza and rabies. In consideration for obtaining this exclusive license, we agreed: (1) that TheraCour can charge its costs (direct and indirect) plus no more than 30% of direct costs as a development fee and such development fees shall be due and payable in periodic installments as billed, (2) we will pay $2,000 or actual costs each month, whichever is higher for other general and administrative expenses incurred by TheraCour on our behalf. Accounts payable due TheraCour Pharma Inc. on the reporting date was	$658,439	$767,454

	For the Three Months Ended	
Research and Development Costs Paid to Related Parties	September 30, 2016	September 30, 2015
Development fees and other costs charged by and paid to TheraCour Pharma, Inc. pursuant to exclusive License Agreements between TheraCour and the Company for the development of the Company's drug pipeline. No royalties are due TheraCour from the Company at September 30, 2016 and June 30, 2016.	$861,616	$1,016,216

Debentures Payable to a Director	As of September 30, 2016	June 30, 2016
Series B Convertible Debentures - Milton Boniuk	$4,000,000	$4,000,000
Series C Convertible Debentures - Milton Boniuk	5,000,000	5,000,000
Total Debentures Payable to a Director	$9,000,000	$9,000,000

Debenture Interest Payable to a Director	As of September 30 2016	June 30, 2016
Coupon interest payable on $5,000,000 Series C Convertible Debentures and deferred. The deferred interest is paid out quarterly over the remaining term of the debenture commencing September 30, 2015:		
Deferred interest payable - short-term	$166,667	$166,667
Deferred interest payable - long-term	124,999	166,667
Total Debenture Interest Payable to a Director	$291,666	$333,334

Coupon interest expense on the Series B Debentures to Dr. Milton Boniuk for the three months ended September 30, 2016 and 2015 was $80,000 and $80,000, respectively.

Coupon interest expense on the Series C Debentures to Dr. Milton Boniuk for the three months ended September 30, 2016 and 2015 was $125,000 and $125,000, respectively.

Note 5 - Property and Equipment

Property and equipment, stated at cost, less accumulated depreciation consisted of the following:

	September 30, 2016	June 30, 2016
GMP Facility	$ 7,996,402	$ 7,996,402
Land	260,000	260,000
Office Equipment	46,897	46,897
Furniture and Fixtures	5,607	5,607
Lab Equipment	5,327,112	5,302,677
Total Property and Equipment	13,636,018	13,611,583
Less Accumulated Depreciation	(2,014,102)	(1,850,816)
Property and Equipment, Net	$ 11,621,916	$ 11,760,767

Depreciation expense for the three months ended September 30, 2016 and 2015 were $163,286 and $161,606, respectively.

Note 6 - Trademark and Patents

Trademark and patents, stated at cost, less accumulated amortization consisted of the following:

	September 30, 2016	June 30, 2016
Trademarks and Patents	$ 458,954	$458,954
Less Accumulated Amortization	(69,554)	(67,487)
Trademarks and Patents, Net	$ 389,400	$391,467

Amortization expense amounted to $2,067 and $2,067 for the three months ended September 30, 2016 and 2015 respectively.

Note 7 - Convertible Debentures and Derivatives

Series B

On February 1, 2013, the Company raised gross proceeds of $6,000,000 which includes $4,000,000 from a family investment office and a charitable foundation controlled by Dr. Milton Boniuk, a member of the Company's board of directors, through the issuance of our Series B Debentures. The investors purchased unsecured convertible debentures with a 4-year term. The debentures bear an interest rate of 8% p.a. payable quarterly in cash or the Holder at its option may elect to receive such coupon interest payment in shares of common stock and calculated on the date of issuance, using the average of the open and close prices of the Company's common stock on the date such interest payment is due. For each of the three month periods ended September 30, 2016 and 2015, the Company paid cash interest of $120,000 to the Holders of the Company's Series B Convertible Debentures. Additional interest was payable in restricted common stock of 571,429 shares at issuance, and on February 1, 2014 and 2015 and additional interest payable in 571,433 warrants on February 1, 2016. The investors can convert the principal of the debentures and any accrued interest into common stock at a fixed price of $3.50 per share. The Company can prepay the debentures, in which case the base interest rate shall increase by a 7% prepayment penalty. The Company agreed to use its best efforts to register the interest shares and the shares issuable from the interest warrants under a "shelf" registration statement provided same is available, in accordance with the provisions of the Securities Act.

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The following table presents the balance of the Series B Debenture payable, net of discount at September 30 and June 30, 2016. The debt discount is being amortized to interest expense over the term of the debenture:

	September 30, 2016	June 30, 2016
Proceeds	$ 6,000,000	$6,000,000
Debt discount for bifurcated derivative	(2,735,310)	(2,735,310)
	3,264,690	3,264,690
Accumulated amortization of debt discount	2,423,919	2,210,047
Debenture payable - Series B, net	$ 5,688,609	$5,474,737

The Company recognized amortization of this discount as an additional interest charge to "Discount on convertible debentures" for the three months ended September 30, 2016 and 2015, in the amounts of $213,872 and $183,629, respectively.

The debenture contains embedded derivatives which are not clearly and closely related to the host instrument. The embedded derivatives were bifurcated from the host debt instrument and treated as a liability.

The single compound embedded derivative features valued include the:

1. Principal conversion feature at maturity based on fixed conversion price subject to standard adjustments.

2. Redemption additional interest and Redemption Warrants offering.

3. Additional Interest Shares and Interest Warrants.

The Company uses a lattice model that values the compound embedded derivatives bifurcated from the Series B Convertible Debenture based on a probability weighted discounted cash flow model at September 30, 2016 and June 30, 2016.

The following assumptions were used for the valuation of the compound embedded derivative at September 30, 2016 and June 30, 2016:

- The balance of the Series B Convertible Debenture as of September 30, 2016 and June 30, 2016 is $6,000,000;

- The underlying stock price was used as the fair value of the common stock. The stock price increased to **$1.69** at September 30, 2016. The warrant value with the $3.50 exercise price decreased due to the shorter term remaining and the difference between the exercise price and the stock price. The stock price decreased to $1.60 at June 30, 2016 which decreased the warrant value with the $3.50 exercise price;

- The projected annual volatility was based on the Company historical volatility:

1 year

9/30/2016 85%

6/30/2016 83%

- An event of default would occur 0% of the time, increasing 1.00% per month to a maximum of **10%**;

- The Company would redeem the debentures projected initially at 0% of the time and increase monthly by 1.0% to a maximum of **20.0%** (from alternative financing being available for a Redemption event to occur);

- The Holder would automatically convert the interest if the Company was not in default and its shares value would be equivalent to the cash value;

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- The Holder would automatically convert the debenture at maturity if the registration was effective and the Company was not in default.

- The weighted cost of capital discount rate (based on the market value of the transaction at issuance) adjusted for changes in the risk free rate is **21.90%.**

- Even though the shares are restricted, the underlying assumption is that any restriction on resale will be removed either through registration or the passage of time at the time of issuance.

The fair value of the compound embedded derivatives of the Series B Convertible Debenture at September 30, 2016 and June 30, 2016 was $120,123 and $203,030, respectively.

Series C

On July 2, 2014 (the “Closing Date”), the Company accepted a subscription in the amount of $5,000,000 for a 10% Coupon Series C Convertible Debenture (the “Debenture”) from Dr. Milton Boniuk, a member of the Company’s Board of Directors (the “Holder”). The Debenture is due on June 30, 2018 (the “Maturity Date”) and is convertible, at the sole option of the Holder, into restricted shares of the Company’s common stock, par value $0.001 per share (the “Common Stock”) at the conversion price of $5.25 per share of Common Stock. The Debenture bears interest at the coupon rate of ten percent (10%) per annum, computed on an annual basis of a 365 day year, payable in quarterly installments on March 31, June 30, September 30 and December 31 of each calendar year until the Maturity Date. In accordance with the debenture agreement, the interest for the initial year of the debenture for a total of $500,000 shall be deferred and paid over the remainder of the term at $166,667 per year. The Holder at its option may choose to receive such coupon interest payment in shares of common stock calculated using the average of the open and close prices of the Company’s common stock on the date such interest payment is due. For each of the three month periods ended September 30, 2016 and 2015, the Company paid cash interest of $125,000 to the Holders of the Company’s Series C Convertible Debentures. The Company has the right, but not the obligation, to repay the Debenture prior to the Maturity Date (the “Redemption Payment”). If the closing bid price of the common Stock is in excess of $5.25 when the Company notifies the Holder it has elected to prepay the Debenture (the “Redemption Date”), the Company must redeem the Debenture by delivering to the Holder 952,381 shares of Common Stock and any unpaid coupon interest in lieu of a cash Redemption Payment. If the Holder elects to receive the Redemption Payment in cash, or if the closing bid price of the Common Stock is less than $5.25, the Company shall pay to the Holder a Redemption Payment in cash equal to the principal amount of the Debenture, plus any accrued coupon interest, plus additional interest of 7% per annum for the period from the Closing Date to the Redemption Date and warrants to purchase 619,048 shares of Common Stock which shall expire in three years from the date of issuance at the exercise price of $6.05 per share of Common Stock. The Company cannot conclude that it has sufficient authorized and unissued shares to settle the contract after considering all other commitments that may require the issuance of stock during the maximum period the derivative instrument could remain outstanding. This is due to the fact that the interest payments are payable in stock of the Company, at the option of the Holder, based on the current market price of the common stock on the date such payments are due. Therefore, the number of shares due as interest payments is essentially indeterminate and the

Company cannot conclude that it has sufficient authorized and unissued shares to settle the conversion feature. Accordingly, the Company bifurcated the embedded features from the host contract and recorded them as a derivative liability at fair value. A debt discount was recognized in the same amount as the derivative liability associated with embedded features bifurcated from the Series C Convertible Debenture.

On July 2, 2014, in conjunction with the issuance of the Company's Series C Convertible Debentures, the Company issued 187,000 shares of its Series A Convertible Preferred stock (the "Series A") to Dr. Milton Boniuk, pursuant to the terms of the Debenture. Proceeds received in a financing transaction are allocated to the instruments issued prior to evaluating hybrid contracts for bifurcation of embedded derivatives. Since the Series A Convertible Preferred Stock is classified as equity, the proceeds allocated to the Preferred Stock are recorded at relative fair value. The fair value of the Series A was $1,645,606 at issuance and the relative fair value was calculated as $1,152,297. The remaining amount of the proceeds was allocated to the Debenture and a debt discount of $1,152,297 was recorded to offset the amount of the proceeds allocated to the Series A. Then, the embedded derivative was bifurcated at its fair value of $1,879,428 with the remaining balance allocated to the host instrument (Debenture). The total debt discount will be amortized over the term of the Debenture using the effective interest method. The Company recognized amortization of this discount as an additional interest charge to "Discount on convertible debentures" in the amount of $189,590 and $150,081 for the three months ended September 30, 2016 and 2015, respectively.

The following represents the balance of the Debenture payable – Series C, net of discount at September 30, 2016 and June 30, 2016:

	September 30, 2016	June 30, 2016
Proceeds	$ 5,000,000	$ 5,000,000
Debt Discount:		
Series A Preferred	(1,152,297)	(1,152,297)
Embedded derivative	(1,879,428)	(1,879,428)
	1,968,275	1,968,275
Accumulated amortization of debt discount	1,354,983	1,165,393
Debenture payable - Series C, net	$ 3,323,258	$ 3,133,668

The Company uses a lattice model that values the compound embedded derivatives of the Series C Convertible Debenture based on a probability weighted discounted cash flow model at September 30, 2016 and June 30, 2016.

The following assumptions were used for the valuation of the compound embedded derivative at September 30 and June 30, 2016:

- The balance of the Series C Convertible Debenture as of September 30, 2016 and June 30, 2016 is $5,000,000;

- The underlying stock price was used as the fair value of the common stock; The stock price increased to **$1.69** at September 30, 2016 with higher projected annual volatility. The warrant value with the $6.05 exercise price decreased due the decreasing term remaining. The stock price decreased to $1.60 at June 30, 2016 which decreased the warrant value with the $6.05 exercise price;

- The projected annual volatility was based on the Company historical volatility:

1 year

9/30/16 85%

6/30/16 83%

- An event of default would occur 0% of the time, increasing 1.00% per month to a maximum of **10%**;
- The Holder would automatically convert the interest if the Company was not in default and its share value was equivalent to the cash value;
- The Holder would automatically convert the debenture at maturity if the registration was effective and the Company was not in default.
- The weighted cost of capital discount rate (based on the market value of the transaction at issuance) adjusted for changes in the risk free rate is 21.90%.
- Even though the shares are restricted the underlying assumption is that any restriction on resale will be removed either through registration or the passage of time at the time of issuance.

The fair value of the compound embedded derivatives of the Series C Convertible Debenture at September 30, 2016 and June 30, 2016 was $325,267 and $343,673, respectively.

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Note 8 - Equity Transactions

On July 21, 2015, the Board of Directors approved a new employment agreement with Dr. Anil Diwan, the Company's president. Pursuant to the terms of the employment agreement, the Company's Board of Directors authorized the issuance of 225,000 Series A preferred shares to Dr. Diwan. 75,000 shares vested on June 30, 2016 and the remainder of the shares will vest over the three years of the employment agreement and are subject to forfeiture. The Company recognized a noncash compensation expense related to the issuance of the Series A Preferred Shares for the three months ended September 30, 2016 and September 30, 2015 of $74,317 and $77,336, respectively. The remaining balance of $490,094 will be recognized as the remaining shares are vested over the term of the contract.

On July 21, 2015, the Board of Directors approved a new employment agreement with Dr. Eugene Seymour, the Company's Chief Executive Officer. Pursuant to the terms of the employment agreement, the Company's Board of Directors authorized the issuance of 225,000 Series A preferred shares to Dr. Seymour. 75,000 shares vested on June 30, 2016 and the remainder of the shares will vest over the three years of the employment agreement and are subject to forfeiture. The Company recognized a noncash compensation expense related to the issuance of the Series A Preferred Shares for the three months ended September 30, 2016 and September 30, 2015 of $74,317 and $77,336, respectively. The remaining balance of $490,094 will be recognized as the remaining shares are vested over the term of the contract.

For the three months ended September 30, 2016, the Company's Board of Directors authorized the issuance of 7,716 fully vested shares of its Series A Convertible Preferred stock for employee compensation. The Company recorded an expense of $34,264.

The fair value of the Series A Preferred stock was the following for the dates indicated:

Date	Shares	Value
7/31/2016	2,572	$11,439