

GUIDED THERAPEUTICS INC
Form 424B3
November 13, 2015

Filed pursuant to Rule 424(b)(3)
Registration No. 333-203589

PROSPECTUS SUPPLEMENT NO. 10

56,665,714 Shares of Common Stock

of

Guided Therapeutics, Inc.

This prospectus supplement supplements and amends the prospectus dated May 7, 2015, as previously supplemented, which constitutes part of our registration statement on Form S-1 (No. 333-203589) relating to up to 56,665,714 shares of our common stock. This prospectus supplement includes our quarterly report on Form 10-Q filed November 12, 2015. **THIS IS NOT A NEW REGISTRATION OF SECURITIES.**

This prospectus supplement should be read in conjunction with the prospectus, which is to be delivered with this prospectus supplement. This prospectus supplement is qualified by reference to the prospectus, except to the extent that the information in this prospectus supplement updates and supersedes the information contained in the prospectus.

This prospectus supplement is not complete without, and may not be delivered or utilized except in connection with, the prospectus.

Investing in our common stock involves a high degree of risk. We urge you to carefully read the “Risk Factors” section beginning on page 5 of the prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus supplement is November 13, 2015.

**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

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

For the quarterly period ended September 30, 2015

Commission File No. 0-22179

GUIDED THERAPEUTICS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

58-2029543

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

5835 Peachtree Corners East, Suite D

Norcross, Georgia 30092

(Address of principal executive offices) (Zip Code)

(770) 242-8723

(Registrant's telephone number, including area code)

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 [X]

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] 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-12 of the Exchange Act (Check one):

Large Accelerated filer _____ Accelerated filer _____ Non-accelerated filer _____ 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 [X]

As of October 30, 2015, the registrant had outstanding 163,741,755 shares of Common Stock.

GUIDED THERAPEUTICS, INC. AND SUBSIDIARY

INDEX

Part I. Financial Information

Item 1. Financial Statements

Condensed Consolidated Balance Sheets (Unaudited) -
September 30, 2015 and December 31, 2014

Condensed Consolidated Statements of Operations (Unaudited)
Three and nine months ended September 30, 2015 and 2014

Condensed Consolidated Statements of Cash Flows (Unaudited)
Nine months ended September 30, 2015 and 2014

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

Item 3. Quantitative and Qualitative About Market Risk

Item 4. Controls and Procedures

Part II. Other Information

Item 1. Legal Proceedings

Item 1A. Risk Factors

Item 2. Unregistered Sale of Equity Securities and Use of Proceeds.

Item 3. Defaults Upon Senior Securities

Item 4. Mine Safety Disclosures

Item 5. Other

Information

Item 6. Exhibits

Signatures

2

PART I - FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****GUIDED THERAPEUTICS, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited, in Thousands)**

ASSETS	September 30, 2015	December 31, 2014
CURRENT ASSETS:		
Cash and cash equivalents	\$ 172	\$ 162
Accounts receivable, net of allowance for doubtful accounts of \$63 and \$76 at September 30, 2015 and December 31, 2014, respectively	219	338
Inventory, net of reserves of \$97 and \$144, at September 30, 2015 and December 31, 2014, respectively	912	1,180
Other current assets	979	99
Total current assets	2,282	1,779
Property and equipment, net	377	587
Other assets	108	101
Debt issuance costs, net	—	564
Total noncurrent assets	485	1,252
TOTAL ASSETS	\$ 2,767	\$ 3,031
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Short-term notes payable, including related parties	\$ 784	\$ 646
Note payable in default	129	—
Current portion of long-term debt	—	123
Short-term convertible note payable, net of discount	935	1,062
Accounts payable	1,466	1,733
Accrued liabilities	1,616	1,015
Deferred revenue	33	24
Total current liabilities	4,963	4,603
Warrants, at fair value	1,287	2,070
Long-term debt, net	—	40
Convertible note, net of discount	—	783
Total long-term liabilities	1,287	2,893

TOTAL LIABILITIES	6,250	7,496
STOCKHOLDERS' DEFICIT:		
Series B convertible preferred stock, \$.001 par value; 3 shares authorized, zero and 1.2 shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively. (Liquidation preference of zero and \$1,200 at September 30, 2015 and December 31, 2014, respectively)	—	678
Series C convertible preferred stock, \$.001 par value; 9.0 shares authorized, 5.9 shares issued and outstanding as of September 30, 2015 and none authorized or issued and outstanding at December 31, 2014, respectively. (Liquidation preference of \$5,894 at September 30, 2015 and none at December 31, 2014)	2,044	—
Common stock, \$.001 Par value; 500,000 shares authorized, 143,681 and 96,889 shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively	143	97
Additional paid-in capital	114,537	107,952
Treasury stock, at cost	(132) (132)
Accumulated deficit	(120,075) (113,060)
TOTAL STOCKHOLDERS' DEFICIT	(3,483) (4,465)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 2,767	\$ 3,031

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

GUIDED THERAPEUTICS, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in Thousands)

	FOR THE THREE MONTHS		FOR THE NINE MONTHS	
	ENDED SEPTEMBER 30,		ENDED SEPTEMBER 30,	
	2015	2014	2015	2014
REVENUE:				
Sales – devices and disposables	\$94	\$262	\$323	\$586
Cost of goods sold	230	260	544	723
Gross profit (loss)	(136)	2	(221)	(137)
Contract and grant revenue	8	22	33	52
COSTS AND EXPENSES:				
Research and development	413	892	1,090	2,122
Sales and marketing	187	135	542	762
General and administrative	1,110	1,412	2,863	3,551
Total	1,710	2,439	4,495	6,435
Operating loss	(1,838)	(2,415)	(4,683)	(6,520)
OTHER INCOME AND (EXPENSES)				
Other income	10	9	69	14
Changes in fair value of warrants	41	(195)	710	266
Interest expense	(404)	(371)	(1,240)	(445)
Other income and (expenses)	(353)	(557)	(461)	(165)
LOSS BEFORE INCOME TAXES	(2,191)	(2,972)	(5,144)	(6,685)
PROVISION FOR INCOME TAXES	—	—	—	—
NET LOSS	(2,191)	(2,972)	(5,144)	(6,685)
PREFERRED STOCK DIVIDENDS AND	(545)	(39)	(1,871)	(128)

DEEMED DIVIDENDS

NET LOSS ATTRIBUTABLE TO COMMON

(2,736) \$(3,011) \$(7,015) \$(6,813)

STOCKHOLDERS

BASIC AND DILUTED NET LOSS PER SHARE

ATTRIBUTABLE TO COMMON

STOCKHOLDERS

\$(0.02) \$(0.04) \$(0.06) \$(0.09)

WEIGHTED AVERAGE SHARES

124,809 77,651 109,902 74,052

OUTSTANDING

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

GUIDED THERAPEUTICS, INC. AND SUBSIDIARY
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited, in Thousands)

	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 2014	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(5,144)	\$(6,685)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bad debt expense	—	32
Depreciation and amortization	990	359
Stock based compensation	802	852
Non- employee stock based compensation	400	—
Change in fair value of warrants	(710)	(301)
Changes in operating assets and liabilities:		
Accounts receivable	119	(316)
Inventory	268	(11)
Other current assets	(497)	(330)
Other assets	(390)	184
Accounts payable	(267)	774
Deferred revenue	9	(4)
Accrued liabilities	830	639
Total adjustments	1,554	1,877
Net cash used in operating activities	(3,590)	(4,807)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to fixed assets	(2)	(144)
Net cash used in investing activities	(2)	(144)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of preferred stock and warrants	3,115	—
Net proceeds from issuance of common stock and warrants	720	201
Proceeds from debt financing, net of issuance costs	415	4,571
Payments made on notes payable	(789)	(459)
Proceeds from options and warrants exercised	141	67
Net cash provided by financing activities	3,602	4,380
NET CHANGE IN CASH AND CASH EQUIVALENTS	10	(571)
CASH AND CASH EQUIVALENTS, beginning of year	162	613
CASH AND CASH EQUIVALENTS, end of period	\$172	\$42
SUPPLEMENTAL SCHEDULE OF:		
Cash paid for:		
Interest	\$76	\$33

NONCASH INVESTING AND FINANCING ACTIVITIES:

Deemed dividend on beneficial conversion feature of Series C preferred stock	\$148	\$—
Deemed dividend on price changes for Series B preferred stock warrants	\$64	\$—
Deemed dividend on December 2014 public offering warrants	\$1,049	\$—
Term changes on Series B preferred stock and December 2014 public offering warrants resulting in transfer to equity	\$1,412	\$—
Debt issuance cost paid via warrants	\$—	\$522
Issuance of common stock as debt repayment	\$902	\$—
Issuance of common stock as board compensation	\$—	\$355
Conversion of convertible debt into common stock	\$—	\$800
Conversion of accrued expenses into common stock	\$—	\$178
Repayment of deferred compensation via issuance of preferred stock	\$100	\$—
Dividends on preferred stock	\$610	\$—

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

GUIDED THERAPEUTICS, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements included herein have been prepared in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”) for interim financial reporting and with the instructions to Form 10-Q and Article 10 of Regulation S-X by Guided Therapeutics, Inc. (formerly SpectRx, Inc.), together with its wholly owned subsidiary InterScan, Inc., (“InterScan”) (formerly Guided Therapeutics, Inc.), collectively referred to herein as the “Company”. Accordingly, they do not include all information and footnotes required by GAAP for complete financial statements. These statements reflect adjustments, all of which are of a normal, recurring nature, and which are, in the opinion of management, necessary to present fairly the Company’s financial position as of September 30, 2015, results of operations for the three and nine months ended September 30, 2015 and 2014, and cash flows for the nine months ended September 30, 2015 and 2014. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results for a full fiscal year. Preparing financial statements requires the Company’s management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Actual results could differ from those estimates. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company’s annual report on Form 10-K for the year ended December 31, 2014.

The Company's prospects must be considered in light of the substantial risks, expenses and difficulties encountered by entrants into the medical device industry. This industry is characterized by an increasing number of participants, intense competition and a high failure rate. The Company has experienced net losses since its inception and, as of September 30, 2015, it had an accumulated deficit of approximately \$120.0 million. Through September 30, 2015, the Company has engaged primarily in research and development efforts and the early stages of marketing its products. The Company does not have significant experience in manufacturing, marketing or selling its products. The Company may not be successful in growing sales for its products. Moreover, the Company may not obtain required regulatory clearances or approvals. The Company's products may not ever gain market acceptance and the Company may not ever generate significant revenues or achieve profitability. The development and commercialization of the Company's products requires substantial development, regulatory, sales and marketing, manufacturing and other expenditures. The Company expects operating losses to continue through at least the end of 2015 as it continues to expend substantial resources to introduce its products, obtain regulatory clearances or approvals, build its marketing, sales, manufacturing and finance capabilities, and conduct further research and development.

Going Concern

The Company's consolidated financial statements have been prepared and presented on a basis assuming it will continue as a going concern. The factors below raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary from the outcome of this uncertainty.

At September 30, 2015, the Company had negative working capital of approximately \$2.7 million and the stockholders' deficit was approximately \$3.5 million, primarily due to recurring net losses from operations and deemed dividends on warrants and preferred stock, offset by proceeds from the exercise of options and warrants and proceeds from the sales of stock.

The Company's capital-raising efforts are ongoing. If sufficient capital cannot be raised by the end of fourth quarter of 2015, the Company has plans to curtail operations by reducing discretionary spending and staffing levels, and attempting to operate by only pursuing activities for which it has external financial support. However, there can be no assurance that such external financial support will be sufficient to maintain even limited operations or that the Company will be able to raise additional funds on acceptable terms, or at all. In such a case, the Company might be required to enter into unfavorable agreements or, if that is not possible, be unable to continue operations, and to the extent practicable, liquidate and/or file for bankruptcy protection.

The Company had warrants exercisable for approximately 152.3 million shares of its common stock outstanding at September 30, 2015, with exercise prices of \$0.0900 to \$1.05 per share. Exercises of these warrants would generate a total of approximately \$16.0 million in cash, assuming full exercise, although the Company cannot be assured that holders will exercise any warrants. Management may obtain additional funds through the private sale of preferred stock or debt securities, public and private sales of common stock, and grants, if available.

The Company is following up with the FDA regarding the Non Approvable letter that the Company received in May 2015. The FDA has requested that the Company provide additional clinical data and the Company is in discussions with the FDA to agree on the protocol and amount of clinical data required. FDA approval is not expected in the next 12 months.

2. SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies were set forth in the audited financial statements and notes thereto for the year ended December 31, 2014 included in its annual report on Form 10-K, filed with the Securities and Exchange Commission ("SEC").

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant areas where estimates are used include the allowance for doubtful accounts, inventory valuation and input variables for Black-Scholes, Monte Carlo simulations and Lattice Model calculations.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Guided Therapeutics, Inc. and its wholly owned subsidiary.

Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be a cash equivalent.

Accounts Receivable

The Company performs periodic credit evaluations of its customers' financial conditions and generally does not require collateral. The Company reviews all outstanding accounts receivable for collectability on a quarterly basis. An allowance for doubtful accounts is recorded for any amounts deemed uncollectable. The Company does not accrue interest receivable on past due accounts receivable.

Revenue Recognition

Revenue from the sale of the Company's products is recognized upon shipment of such products to its customers. The Company recognizes revenue from contracts on a straight line basis, over the terms of the contract. The Company recognizes revenue from grants based on the grant agreement, at the time the expenses are incurred.

Deferred Revenue

The Company defers payments received as revenue until earned based on the related contracts on a straight line basis, over the terms of the contract.

Income Taxes

The Company accounts for income taxes in accordance with the liability method. Under the liability method, the Company recognizes deferred assets and liabilities based upon anticipated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases. The Company establishes a valuation allowance to the extent that it is more likely than not that deferred tax assets will not be utilized against future taxable income. As of December 31, 2014, the Company had approximately \$68.4 million of net operating loss ("NOL") carry forward. There was no provision for income taxes at September 30, 2015. A full valuation allowance has been recorded related to any deferred tax assets created from the NOL.

Stock Option Plan

The Company measures the cost of employees services received in exchange for equity awards, including stock options, based on the grant date fair value of the awards. The cost will be recognized as compensation expense over the vesting period of the awards.

Concentrations of Credit Risk

The Company, from time to time during the years covered by these consolidated financial statements, may have bank balances in excess of its insured limits. Management has deemed this a normal business risk.

Inventory Valuation

All inventories are stated at lower of cost or market, with cost determined substantially on a “first-in, first-out” basis. Selling, general, and administrative expenses are not inventoried, but are charged to expense when purchased. At September 30, 2015 and December 31, 2014, our inventories were as follows (in thousands):

	September 30, 2015	December 31, 2014
Raw materials	\$ 739	\$ 884
Work in process	168	304
Finished goods	122	136
Inventory reserve	(117)	(144)
Total	\$ 912	\$ 1,180

Other Current Assets

As of September 30, 2015, other current assets of \$979 primarily consists of deposits on future inventory receipts of \$382 and prepaid investor relations contract of \$412, which is being amortized over one year. The remaining balance of \$185 consists of various ordinary course business activities. As of December 31, 2014, other current assets consisted of various ordinary course business activities of \$99.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over estimated useful lives of three to seven years. Leasehold improvements are depreciated at the shorter of the useful life of the asset or the remaining lease term. Depreciation expense is included in general and administrative expense on the statement of operations. Expenditures for repairs and maintenance are expensed as incurred. Property and equipment are summarized as follows at September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015	December 31, 2014
Equipment	\$ 1,391	\$ 1,391
Software	740	737
Furniture and fixtures	124	124
Leasehold Improvement	180	180
	2,435	2,432
Less accumulated depreciation	(2,058)	(1,845)
Total	\$ 377	\$ 587

Other Assets

Other assets primarily consist of long-term deposits for various tooling projects that are being constructed for the Company. At September 30, 2015 and December 31, 2014, such balances were approximately \$108,000 and \$101,000, respectively.

Debt Issuance Costs

Debt issuance costs incurred in securing the Company's financing arrangements are capitalized and amortized over the term of the debt. Deferred financing costs are included in other long term assets.

Warrants

The Company has issued warrants, which allow the warrant holder to purchase one share of stock at a specified price for a specified period of time. The Company records equity instruments including warrants issued to non-employees based on the fair value at the date of issue. The fair value of warrants classified as equity instruments at the date of issuance is estimated using the Black-Scholes Model. The fair value of warrants classified as liabilities at the date of issuance is estimated using either the Monte Carlo Simulation model or a Binomial model.

New Accounting Pronouncements

Recently Adopted Accounting Guidance

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," ("ASU 2014-09"). ASU 2014-09 outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new revenue recognition model provides a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. ASU 2014-09 is effective for reporting periods beginning after December 15, 2017. Early adoption is permitted for periods beginning after December 15, 2016. The Company is evaluating the impact that adoption of this guidance will have on the determination or reporting of its financial results.

In June 2014, the FASB issued ASU 2014-12, "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, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. ASU 2014-12 is effective for reporting periods beginning after December 15, 2015. Early adoption is permitted. The Company is evaluating the impact that adoption of this guidance will have on the determination or reporting of its financial results.

In August 2014, the FASB issued ASU 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern," ("ASU 2014-15"). ASU 2014-15 requires management to perform interim and annual assessments of an entity's ability to continue as a going concern for a one year period subsequent to the date of the financial statements. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The guidance is effective for all entities for the first annual period ending after December 15, 2016 and interim periods thereafter, with early adoption permitted. The Company is evaluating the impact that adoption of this guidance will have on the determination or reporting of its financial results.

In April 2015, the FASB issued ASU 2015-03, “Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs,” (“ASU 2015-03”). ASU 2015-03 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. The guidance is effective for reporting periods beginning after December 15, 2015 and interim periods within those fiscal years with early adoption permitted. ASU 2015-03 should be applied on a retrospective basis, wherein the balance sheet of each period presented should be adjusted to reflect the effects of adoption. The Company is evaluating the impact that adoption of this guidance will have on the determination or reporting of its financial results.

In July 2015, the FASB issued ASU 2015-11, “Simplifying the Measurement of Inventory,” (“ASU 2015-11”). ASU 2015-11 requires inventory be measured at the lower of cost and net realizable value and options that currently exist for market value be eliminated. ASU 2015-11 defines net realizable value as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The guidance is effective for reporting periods beginning after December 15, 2016 and interim periods within those fiscal years with early adoption permitted. ASU 2015-11 should be applied prospectively. The Company is evaluating the impact adoption of this guidance will have on determination or reporting of its financial results.

Except as noted above, the guidance issued by the FASB during the current year is not expected to have a material effect on the Company's consolidated financial statements.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

The guidance for fair value measurements, ASC820, *Fair Value Measurements and Disclosures*, establishes the authoritative definition of fair value, sets out a framework for measuring fair value, and outlines the required disclosures regarding fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The Company uses a three-tier fair value hierarchy based upon observable and non-observable inputs as follow:

- Level 1 – Quoted market prices in active markets for identical assets and liabilities;
- Level 2 – Inputs, other than level 1 inputs, either directly or indirectly observable; and
- Level 3 – Unobservable inputs developed using internal estimates and assumptions (there is little or no market data) which reflect those that market participants would use.

The Company records its derivative activities at fair value, which consisted of warrants as of September 30, 2015. The fair value of the warrants was estimated using a Monte Carlo Simulation and or Binomial model. Gains and losses from derivative contracts are included in net gain (loss) from derivative contracts in the statement of operations. The fair value of the Company's derivative warrants is classified as a Level 3 measurement, since unobservable inputs are used in the valuation.

The following table presents the fair value for those liabilities measured on a recurring basis as of September 30, 2015 and December 31, 2014:

FAIR VALUE MEASUREMENTS (In Thousands)

The following is summary of items that the Company measures at fair value on a recurring basis:

Fair Value at September 30, 2015			
Level 1	Level 2	Level 3	Total
\$—	\$—	\$1,287	\$1,287

Warrants issued in connection with the issuance of Series C preferred stock

Total long-term liabilities at fair value	\$—	\$—	\$1,287	\$1,287
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12

Fair Value at December 31, 2014

	Level 1	Level 2	Level 3	Total
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Warrants issued in connection with the December 2014 public offering of common stock	\$—	\$—	\$(587)	\$(587)
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Warrants issued in connection with the issuance of Series B preferred stock	—	—	(1,483)	(1,483)
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Total long-term liabilities at fair value	\$—	\$—	\$(2,070)	\$(2,070)
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The following is a summary of changes to Level 3 instruments during the nine months ended September 30, 2015:

Fair Value Measurements Using Significant Unobservable

Inputs (Level 3)

	December 2014 Public Offering Warrants	Series B Warrants	Series C Warrants	Total
Balance, December 31, 2014	\$ (587) \$ (1,483) \$—	\$ (2,070)
Warrants issued during the period	—	—	(1,349) (1,349)
Change in fair value during the period	267	381	62	710
Transfer to equity as a result of changes	320	1,102	—	1,422
to provisions				
Balance, September 30, 2015	\$—	\$—	\$ (1,287) \$ (1,287)

4. STOCKHOLDERS' DEFICIT

Common Stock

At September 30, 2015 the Company had authorized 500 million shares of common stock with \$0.001 par value, of which 143.6 million were issued and outstanding. For the year ended December 31, 2014, there were 195 million authorized shares of common stock, of which 96.9 million were issued and outstanding. On November 12, 2015, the Company amended its certificate of incorporation to increase the number of authorized shares of common stock by 500 million shares, to 1 billion. See Note 10, "Subsequent Events".

For the nine months ended September 30, 2015, the Company issued 46,791,644 shares of common stock as listed below:

New issuance - for cash	3,999,999
Preferred stock converted into common stock	25,280,399
Dividends	628,564
Options exercised	168,558
Issued for professional services	3,669,725
Warrants conversion	1,350,000
Loan re-structuring	2,670,408
Repayment of loan	9,023,991
Total	46,791,644

Preferred Stock

The Company has authorized 5,000,000 shares of preferred stock with a \$.001 par value. The board of directors has the authority to issue these shares and to set dividends, voting and conversion rights, redemption provisions, liquidation preferences, and other rights and restrictions. The board of directors designated 525,000 shares of preferred stock as redeemable convertible preferred stock, none of which remain outstanding, 3,000 shares of preferred stock as Series B Convertible Preferred Stock, of which none and 1,277 shares were issued and outstanding at September 30, 2015 and December 31, 2014, respectively; and 9,000 shares of preferred stock as Series C Convertible Preferred Stock, of which 5,894 and 0 shares were issued and outstanding at September 30, 2015 and December 31, 2014, respectively.

Series B Convertible Preferred Stock

Pursuant to the terms of the Series B Preferred Stock set forth in the Series B designations, shares of Series B Preferred Stock were convertible into common stock by their holder at any time, and were mandatorily convertible upon the achievement of certain conditions, including the receipt of certain approvals from the U.S. Food and Drug Administration and the achievement by the Company of specified average trading prices and volumes for the common stock.

Holders of the Series B Preferred Stock were entitled to quarterly dividends at an annual rate of 10.0%, payable in cash or, subject to certain conditions, common stock, at the Company's option. Accrued dividends totaled approximately \$121,600 at September 25, 2015, the last day on which any shares of Series B Preferred Stock were outstanding. At September 30, 2015, this amount was recorded in accrued liabilities on the balance sheet. Each share of Series B Preferred Stock is entitled to a number of votes equal to the number of shares of common stock into which the Series B Preferred Stock is convertible.

The Series B Preferred Stock was originally issued with Tranche A warrants to purchase 1,858,089 shares of common stock and Tranche B warrants purchasing 1,858,088 shares of common stock, both at an exercise price of \$1.08 per share.

On June 30, 2015, as consideration for obtaining consents to an amendment to the Series B designations, the Company reduced the exercise price of the Tranche A warrants from \$1.08 to \$0.10455 per share, and the exercise price of the Tranche B warrants from \$0.10455 to \$0.09 per share. The change in exercise price of these warrants resulted in a deemed dividend totaling \$72,000 that has been recorded as an increase to additional paid-in capital with an offsetting charge to retained earnings. The deemed dividend has been subtracted from income (added to the loss) in computing loss per common stockholder.

At September 30, 2015, as a result of the operation of certain anti-dilution provisions, the Tranche B warrants were convertible into 17,557,468 shares of common stock. Prior to the June 2015 amendment to the Series B designations, the Company was required to account for the Tranche B warrants as a liability at fair value each reporting period. However, as a result of the June 2015 amendment, the Company transferred these warrants from a liability to equity.

Series C Convertible Preferred Stock

On June 29, 2015, the Company entered into a securities purchase agreement with certain accredited investors for the issuance and sale of an aggregate of 6,737 shares of Series C preferred stock, at a purchase price of \$750 per share and an initial stated value per share of \$1,000, subject to adjustment for stock splits, stock dividends or other similar occurrences.

On September 22, 2015, the remaining balance of 1,277 Series B Preferred shares issued and outstanding were converted into the Company's Series C Preferred shares. On that day, 1,702 shares of Series C Preferred were issued to replace the Series B Preferred shares. Furthermore, 28,973,684 warrants to purchase the Company's common stock at \$0.095 per share, were issued as part of the conversion.

Pursuant to the agreement, as of September 30, 2015, the Company had issued 5,894 shares of Series C preferred stock and warrants to purchase 108,984,210 shares of common stock at \$0.095 per share for gross proceeds totaling \$3,800,500. Total cash and non-cash expenses were valued at \$685,500, resulting in net proceeds of \$3,115,000.

The Company has provisionally allocated net proceeds totaling \$935,200 to the fair value of the preferred stock. The effective conversion price of \$935,000 allocated to the Series C preferred stock resulted in an associated beneficial conversion feature totaling \$148,000 that has been recorded as an increase to additional paid-in capital with an offsetting charge to retained earnings representing a deemed dividend. The deemed dividend has been subtracted from income (added to the loss) in computing loss per common stockholder.

The warrants contain anti-dilution adjustments in the event that the Company issues shares of common stock, or securities exercisable for or convertible into shares of common stock, at prices below the exercise price of such warrants. As a result of the dilution protection, the Company is required to account for the warrants as a liability recorded at fair value each reporting period. The Company has valued the warrants using a Binomial model and allocated \$1,349,000 to the fair value of the warrants.

From the original issue date until 42 months thereafter, the holders of Series C preferred stock are entitled to receive quarterly cumulative dividends at a rate per share (as a percentage of stated value per share) of 12% per year per share payable quarterly on each January 1, April 1, July 1 and October 1 during such period (beginning October 1, 2015) in shares of common stock (subject to certain conditions) or, at the Company's option, in cash. In addition, upon the conversion of the Series C preferred stock (other than a forced conversion, described below) during the such period, the Company must pay the converting holder a "make-whole payment" in cash or, at the Company's option (subject to certain conditions), shares of common stock with respect to the converted shares of Series C preferred stock in an amount equal to \$420 per \$1,000 of stated value, less the amount of any dividends already paid on such shares of Series C preferred stock. To the extent the Company chooses to pay any dividends or make-whole payments in shares of common stock, such shares will be valued at 80% of then-current market price (calculated as the average daily volume weighted average price of the common stock for the five consecutive trading days prior to payment). After the dividend payment period, holders of Series C preferred stock are only entitled to receive dividends on an as-if-converted basis) with holders of the common stock (other than dividends paid in additional shares of common stock).

Except as otherwise proved by law or in the Series C designations, the Series C preferred stock has no voting rights. The Company may not, without the consent of the holders of a majority of the shares of Series C preferred stock then outstanding, alter or change adversely the powers, preferences or rights given to the Series C preferred stock or alter or amend the Series C designations, create any class of stock with a liquidation preference equal or senior to the Series C preferred stock, amend the Company's charter in any manner that adversely affects any rights of the holders of Series C preferred stock, increase the number of authorized shares of Series C preferred stock, or enter into any agreement with respect to any of the foregoing.

In the event of a liquidation, dissolution or winding-up, whether voluntary or involuntary, the holders of Series C preferred stock will be entitled to receive out of the Company's assets an amount equal to the stated value of their shares, plus any other fees, liquidated damages or dividends then due and owing on their shares, before any distribution or payment to the holders of any junior securities.

The Series C preferred stock is convertible at any time, at the option of the holder. In addition, if the market price of the common stock for each trading day for 20 of any 30 consecutive trading-day period exceeds 250% of the highest conversion price in effect during such period, the Company may force each holder to convert all or part of such holder's shares into shares of common stock. Each share of Series C preferred stock is convertible into the number of shares of common stock equal to the quotient obtained by dividing (i) the sum of the stated value plus all accrued but unpaid dividends on such share, by (ii) the per share conversion price. The initial per share conversion price was \$0.095, but it has and will automatically adjust downward to 80% of the then-current market price on each of the following dates: (1) five trading days after the effectiveness of a resale registration statement, (2) 20 trading days after the effectiveness of the registration statement and a second resale registration statement filed in connection with the second issuance of Series C preferred stock, (3) 15 trading days after any reverse stock split of the common stock, and (5) five trading days after any conversions of the Company's outstanding convertible debt. The conversion price is subject to further adjustment under certain circumstances to protect the holders of Series C preferred stock from dilution relative to certain issuances of common stock, or securities convertible into or exercisable for shares of common stock. Subject to certain exceptions, if the Company issues shares of common stock, or such other securities, at a price per share less than the then-effective conversion price, the conversion price will be adjusted to equal such lower per share consideration.

Warrants

The following table summarizes transactions involving the Company's outstanding warrants to purchase common stock for the quarter ended September 30, 2015:

	Warrants (Underlying Shares)
Outstanding, January 1, 2015	29,796,072
Issuances	127,396,430
Canceled / Expired	(3,597,312)
Exercised	(1,350,000)
Issuable and Outstanding, September 30, 2015	152,224,978

The Company had the following shares reserved for the warrants as of September 30, 2015:

Warrants

(Underlying Shares)	Exercise Price Per Share	Expiration Date
439,883 (1)	\$0.6800	March 31, 2016
285,186 (2)	\$1.0500	November 20, 2016
1,858,089 (3)	\$0.1045	May 23, 2018
17,557,468 (3)	\$0.0900	May 23, 2018
200,000 (4)	\$0.5000	April 23, 2019
561,798 (4)	\$0.4500	May 22, 2019
184,211 (5)	\$0.3800	September 10, 2019
325,521 (6)	\$0.4601	September 27, 2019
755,344 (7)	\$0.2812	December 02, 2019
8,392,707 (8)	\$0.0900	December 02, 2020
8,392,707 (8)	\$0.1100	December 02, 2020
2,000,000 (9)	\$0.2550	March 30, 2018
1,754,737 (10)	\$0.1188	June 29, 2020
52,642,105 (11)	\$0.0950	June 29, 2020
27,368,421 (12)	\$0.0950	September 04, 2020
28,973,684 (13)	\$0.0950	September 21, 2020
526,316 (14)	\$0.0950	September 04, 2020

- (1) Issued in February 2014 as part of a buy-back of a minority interest in Interscan in December 2012.
- (2) Issued as part of a November 2011 private placement.
- (3) Issued in June 2015 in exchange for warrants originally issued as part of a May 2013 private placement.
- (4) Issued to a placement agent in conjunction with an April 2014 private placement.
- (5) Issued to a placement agent in conjunction with a September 2014 private placement.
- (6) Issued as part of a September 2014 Regulation S offering.
- (7) Issued to a placement agent in conjunction with a 2014 public offering.
- (8) Issued in June 2015 in exchange for warrants originally issued as part of a 2014 public offering.
- (9) Issued as part of a March 2015 private placement.
- (10) Issued to a placement agent in conjunction with a June 2015 private placement.
- (11) Issued as part of a June 2015 private placement.
- (12) Issued as part of a June 2015 private placement.
- (13) Issued as part of a June 2015 private placement.
- (14) Issued to a placement agent in conjunction with a June 2015 private placement.

All outstanding warrant agreements provide for anti-dilution adjustments in the event of certain mergers, consolidations, reorganizations, recapitalizations, stock dividends, stock splits or other changes in our corporate structure. The warrants identified in footnote (3) to the table and having an exercise price of \$0.0900 per share, as well as the warrants identified in footnotes (11) – (13) to the table, also contain anti-dilution adjustments in the event that the Company issues shares of common stock, or securities exercisable for or convertible into shares of common stock, at prices below the exercise price of such warrants.

The warrants identified in footnote (3) to the table and having an exercise price of \$0.0900 per share are subject to a mandatory exercise provision. Subject to certain limitations, we may require exercise of these warrants at any time following (a) the date that is the 30th day after the later of our receipt of an approvable letter from the FDA for LuViva and the date on which the common stock achieves an average market price for 20 consecutive trading days of at least \$1.30 with an average daily trading volume during such 20 consecutive trading days of at least 25,000 shares, or (b) the date on which the average market price of the common stock for 20 consecutive trading days immediately prior to the date we deliver a notice demanding exercise is at least \$1.62 and the average daily trading volume of the common stock exceeds 25,000 shares for such 20 consecutive trading days. If these warrants are not timely exercised upon demand, they will expire.

The warrants identified in footnote (7) to the table are also subject to a mandatory exercise provision. This provision permits us, subject to certain limitations, to require the exercise of such warrants should the average trading price of our common stock over any 30 consecutive day trading period exceed \$0.9216. The warrants identified in note (9) to the table are also subject to a mandatory exercise provision. In the event that the trading price of our common stock is at least two times the initial warrant exercise price for any 20-day trading period, we will have the right to require the immediate exercise of 50% of the then-outstanding warrants. Further, in the event that the trading price of our common stock is at least 2.5 times the initial warrant exercise price for any 20-day trading period, we will have the right to require the immediate exercise of 50% of the then-outstanding warrants. Any warrants not exercised within the prescribed time periods will be canceled to the extent of the number of shares subject to mandatory exercise.

During the quarter ended September 30, 2015, the Company issued warrants to purchase 48,555,483 shares of common stock at an exercise price of \$0.09 per share and warrants to purchase 8,392,707 shares of common stock at an exercise price of \$0.11 per share in exchange for existing outstanding warrants to purchase 8,392,707 shares of common stock with an exercise price of \$0.225 per share. These warrants are identified in footnote (8) to the table. This exchange resulted in a deemed dividend totaling \$1,042,000 that has been recorded as an increase to additional paid-in capital with an offsetting charge to retained earnings. The deemed dividend has been subtracted from income (added to the loss) in computing loss per common stockholder. In addition, the new warrants removed the provision requiring an adjusted exercise price in the event of the Company receiving certain future FDA correspondence. As a result of the June 2015 exchange, the Company transferred these warrants from a liability to equity.

5. STOCK OPTIONS

Under the Company's 1995 Stock Plan (the "Plan"), as of September 30, 2015, a total of 10,852,037 shares of common stock were subject to outstanding options and 2,403,182 shares remained available for issuance. The Plan allows the issuance of incentive stock options, nonqualified stock options, and stock purchase rights. The exercise price of options is determined by the Company's board of directors, but incentive stock options must be granted at an exercise price equal to the fair market value of the Company's common stock as of the grant date. Options historically granted have generally become exercisable over four years and expire ten years from the date of grant. For the three and nine months ended September 30, 2015, approximately \$210,000 and \$592,000, respectively, was recorded in employee option expenses.

A summary of the Company's activity under the Plan as of September 30, 2015 and changes during the nine months then ended is as follows:

		Weighted	
		average	remaining
		exercise	contractual
	Shares	price	(years)
Outstanding, January 1, 2015	6,940,395	\$ 0.66	6.97
Granted	4,214,000	0.11	
Exercised / Expired	(302,358)	0.60	
Outstanding, September 30, 2015	10,852,037	\$ 0.45	6.71
Vested and exercisable, September 30, 2015	9,123,067	\$ 0.48	6.24

The Company estimates the fair value of stock options using a Black-Scholes valuation model. Key input assumptions used to estimate the fair value of stock options include the expected term, expected volatility of the Company's common stock, the risk free interest rate, option forfeiture rates, and dividends, if any. The expected term of the options is based upon the historical term until exercise or expiration of all granted options. The expected volatility is derived from the historical volatility of the Company's stock on the OTCBB market for a period that matches the expected term of the option. The risk-free interest rate is the constant maturity rate published by the U.S. Federal Reserve Board that corresponds to the expected term of the option.

6. LITIGATION AND CLAIMS

From time to time, the Company may be involved in various legal proceedings and claims arising in the ordinary course of business. Management believes that the dispositions of these matters, individually or in the aggregate, are not expected to have a material adverse effect on the Company's financial condition. However, depending on the amount and timing of such disposition, an unfavorable resolution of some or all of these matters could materially affect the future results of operations or cash flows in a particular period.

As of September 30, 2015 and December 31, 2014, there was no accrual recorded for any potential losses related to pending litigation.

7. NOTES PAYABLE

Short Term Notes Payable

At September 30, 2015 and December 31, 2014, the Company maintained notes payable and accrued interest to related parties totaling \$662,000 and \$609,000, respectively. These notes are short term, straight-line amortizing notes. The notes carry an annual interest rate of between 0% and 10%.

At December 31, 2014, the Company maintained a note payable to Premium Assignment Corporation, an insurance premium financing company, of approximately \$100,000. This note was a 10 month straight-line amortizing loan dated June 24, 2014. The note carried annual interest of 4.6%. The balance due on December 31, 2014 was approximately \$37,000. The note was paid in full during the quarter ended June 30, 2015.

At September 30, 2015, the Company maintained a note payable to Premium Assignment Corporation, an insurance premium financing company, of approximately \$172,000. These notes are 10 month straight-line amortizing loans dated June 24, 2014. The notes carry annual interest of 4.6%. The balance due to on the Premium Assignment note was approximately \$122,000 at September 30, 2015.

Note Payable in Default

At September 30, 2015, the Company maintained a note payable totaling approximately \$129,000 of principal and accrued interest. The note accrues interest at 9% with a 16% default rate, requires monthly payments of \$10,000, and matures November 2015. As of September 30, 2015 the note is accruing interest at the default rate. As of December 31, 2014 the balance was \$163,000 and was not in default.

Short Term Convertible Note Payable

On September 10, 2014, the Company sold a secured promissory note to Tonaquint, Inc., with an initial principal amount of \$1,275,000, for a purchase price of \$700,000 (an original issue discount of \$560,000). The Company may prepay the note at any time. The note is secured by the Company's current and future accounts receivable and inventory, pursuant to a security agreement entered into in connection with the sale. On March 10, 2015, May 4, 2015, June 1, 2015, June 16, 2015, and June 29, 2015, the Company amended the terms of the note to extend the maturity ultimately until August 31, 2016. During the extension, interest accrues on the note at a rate of the lesser of 18% per

year or the maximum rate permitted by applicable law. Pursuant to the terms of the amended note, as of September 30, 2015 Tonaquint could convert up to \$935,300 in outstanding balance into shares of common stock, which limit increases by \$75,000 monthly, at a conversion price per share equal to the lower of (1) \$0.25 or (2) 75% of the lowest daily volume weighted average price of the common stock during the five days prior to conversion. If the conversion price at the time of any conversion is lower than \$0.15, the Company has the option of delivering the conversion amount in cash in lieu of shares of common stock. As of September 30, 2015, Tonaquint had converted \$539,542 in outstanding principal and accrued interest into 9,023,991 shares of common stock. The Company paid Tonaquint a total of \$65,000 in loan modification fees. At September 30, 2015, the balance on the note was approximately \$935,300. The original issue discount of \$560,000 was fully amortized as of June 30, 2015.

