

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number:

Skyline Medical Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

33-1007393

(I.R.S. Employer Identification No.)

2915 Commers Drive, Suite 900

(Address of principal executive offices)

Eagan, Minnesota 55121

(Zip Code)

651-389-4800

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company   
Emerging growth company

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

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

Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of August 14, 2017, the registrant had 6,232,761 shares of common stock, par value \$.01 per share outstanding, adjusted for a 1-for -25 reverse stock split effective October 27, 2016 as described in Note 1 to the Condensed Financial Statements under "Nature of Operations and Continuation of Operations". In this report all numbers of shares and per share amounts, as appropriate, have been restated to reflect the reverse stock split.

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**SKYLINE MEDICAL INC.**

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**SKYLINE MEDICAL INC.**  
**CONDENSED BALANCE SHEETS**  
**(Unaudited)**

	<b>June 30, 2017</b>	<b>December 31, 2016</b>
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 1,159,849	\$ 1,764,090
Certificates of Deposit	2,693,174	100,000
Marketable Securities	-	284,329
Accounts Receivable	45,004	38,919
Inventories	242,204	272,208
Prepaid Expense and other assets	188,529	148,637
<b>Total Current Assets</b>	<b>4,328,760</b>	<b>2,608,183</b>
Fixed Assets, net	109,929	101,496
Intangibles, net	93,305	97,867
<b>Total Assets</b>	<b>\$ 4,531,994</b>	<b>\$ 2,807,546</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts Payable	\$ 57,427	\$ 220,112
Accrued Expenses	1,183,673	1,346,105
Deferred Revenue	14,157	7,998
<b>Total Current Liabilities</b>	<b>1,255,257</b>	<b>1,574,215</b>
Accrued Expenses	77,314	309,649
<b>Total Liabilities</b>	<b>1,332,571</b>	<b>1,883,864</b>
Commitments and Contingencies	-	-
<b>Stockholders' Equity:</b>		
Series B Convertible Preferred Stock, \$.01 par value, 20,000,000 authorized, 79,246 and 79,246 outstanding	792	792
Common Stock, \$.01 par value, 24,000,000 authorized, 6,189,428 and 4,564,428 outstanding	61,894	45,644
Additional paid-in capital	54,040,705	47,894,196
Accumulated Deficit	(50,903,968)	(47,018,451)
Accumulated Other Comprehensive Income	-	1,501
<b>Total Stockholders' Equity</b>	<b>3,199,423</b>	<b>923,682</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 4,531,994</b>	<b>\$ 2,807,546</b>

See Notes to Condensed Financial Statements

**SKYLINE MEDICAL INC.**  
**CONDENSED STATEMENTS OF OPERATIONS and OTHER COMPREHENSIVE INCOME**  
(Unaudited)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenue	\$ 106,822	\$ 85,422	\$ 281,988	\$ 182,326
Cost of goods sold	22,010	36,766	59,003	122,649
Gross Margin	84,812	48,656	222,985	59,677
General and administrative expense	2,214,705	2,262,481	3,346,777	3,951,057
Operations expense	182,507	244,840	383,001	635,206
Sales and marketing expense	231,270	102,616	378,724	211,064
Interest expense	-	-	-	-
Total expense	<u>2,628,482</u>	<u>2,609,937</u>	<u>4,108,502</u>	<u>4,797,327</u>
Net loss available to common shareholders	(2,543,670)	(2,561,281)	(3,885,517)	(4,737,650)
<b>Other comprehensive income</b>				
Unrealized gain from marketable securities	-	3,028	-	5,878
Comprehensive loss	<u>\$ (2,543,670)</u>	<u>\$ (2,558,253)</u>	<u>\$ (3,885,517)</u>	<u>\$ (4,731,772)</u>
Loss per common share - basic and diluted	\$ (0.41)	\$ (0.95)	\$ (0.62)	\$ (2.77)
Weighted average shares used in computation - basic and diluted	6,167,689	2,695,203	6,308,554	1,709,526

See Notes to Condensed Financial Statements

**SKYLINE MEDICAL INC.**  
**STATEMENT OF STOCKHOLDERS' EQUITY**  
**(UNAUDITED)**

**Common Stock**

	<b>Preferred Stock</b>	<b>Shares</b>	<b>Amount</b>	<b>Paid-in Capital</b>	<b>Deficit</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Total</b>
Balance at 12/31/2015	\$ 18,950	208,259	\$ 2,080	\$ 44,584,118	\$ (40,492,437)	-	\$ 4,112,711
Shares issued for two options exercised at \$65.75 per share		1,312	13	86,240			86,253
Shares issued for preferred stock conversion into common stock per the break-up of the Unit from the 2015 public offering	(18,158)	66,396	664	17,494			-
Shares issued for cashless Series A warrant exercises per the break-up of the Unit from the 2015 public offering		2,318,663	23,187	556,479			579,666
Shares issued for cashless Series B warrant exercises per the tender offer exchange		628,237	6,282	150,777			157,059
Shares issued at \$3.75 per share, to an investment banker per contractual agreement		135,995	1,360	508,620			509,980
Shares issued at \$4.50 per share to former CEO per severance agreement		20,000	200	90,151			90,351
Vesting Expense				165,271			165,271
Unrealized gain from marketable securities						1,501	1,501
Shares issued at \$4.50 per share to investor relations consultant		26,000	260	116,740			117,000
Shares issued for escrow with GLG Pharma pursuant to the partnership and reseller agreement		400,000	4,000				4,000
Shares issued pursuant to the Registered Direct Offering, net		756,999	7,570	1,618,335			1,625,905
Corrections due to rounding for reverse split and DTCC increase		2,567	28	(29)			(1)
Net loss					(6,526,014)		(6,526,014)
Balance @ 12/31/2016	\$ 792	4,564,428	\$ 45,644	\$ 47,894,196	\$ (47,018,451)	\$ 1,501	\$ 923,682
Shares issued pursuant to the public offering, net		1,750,000	17,500	3,403,688			3,421,188
Shares issued pursuant to the overallotment agreement in the public offering		175,000	1,750	392,000			393,750
Vesting Expense				2,131,821			2,131,821
Reverse shares issued for escrow with GLG Pharma pursuant to termination agreement		(400,000)	(4,000)				(4,000)
Shares issued pursuant to consulting agreement		100,000	1,000	219,000			220,000
Unrealized gain (loss) from marketable securities						(1,501)	(1,501)
Net loss					(3,885,517)		(3,885,517)
Balance @ 6/30/2017	\$ 792	6,189,428	\$ 61,894	\$ 54,040,705	\$ (50,903,968)	\$ -	\$ 3,199,423

See Notes to Condensed Financial Statements

**SKYLINE MEDICAL INC.**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	<b>Six Months Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash flow from operating activities:</b>		
Net loss	\$ (3,885,517)	\$ (4,737,650)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Depreciation and amortization	35,995	42,130
Vested stock options and warrants	2,131,821	48,649
Equity instruments issued for management and consulting	216,000	600,331
Issuance of common stock in cashless warrant exercise	-	669,007
Loss on Sales of Equipment	-	(1,562)
Gain from sale of marketable securities	(1,837)	-
<b>Changes in assets and liabilities:</b>		
Accounts receivable	(6,085)	14,717
Inventories	30,004	(60,420)
Prepaid expense and other assets	(39,892)	50,392
Accounts payable	(162,685)	100,060
Accrued expenses	(394,767)	489,730
Deferred Revenue	6,159	-
<b>Net cash used in operating activities:</b>	<b>(2,070,804)</b>	<b>(2,784,616)</b>
<b>Cash flow from investing activities:</b>		
Purchase of marketable securities	-	(850,000)
Proceeds from sale of marketable securities	284,665	-
Purchase of certificates of deposit	(2,593,174)	(1,000,000)
Redemption of certificates of deposit	-	298,757
Purchase of fixed assets	(38,637)	(18,729)
Purchase of intangibles	(1,229)	(4,853)
<b>Net cash used in investing activities:</b>	<b>(2,348,375)</b>	<b>(1,574,825)</b>
<b>Cash flow from financing activities:</b>		
Issuance of common stock	3,814,938	86,253
<b>Net cash provided by (used in) financing activities</b>	<b>3,814,938</b>	<b>86,253</b>
<b>Net increase (decrease) in cash</b>	<b>(604,241)</b>	<b>(4,273,188)</b>
Cash at beginning of period	1,764,090	4,856,232
<b>Cash at end of period</b>	<b>\$ 1,159,849</b>	<b>\$ 583,044</b>

See Notes to Condensed Financial Statements

**SKYLINE MEDICAL INC.**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**(Amounts presented at and for the three and six months ended June 30, 2017 and June 30, 2016 are unaudited)**

**NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations and Continuance of Operations**

Skyline Medical Inc. (the "Company") was incorporated under the laws of the State of Minnesota in 2002. Effective August 6, 2013, the Company changed its name to Skyline Medical Inc. As of June 30, 2017, the registrant had 6,189,428 shares of common stock, par value \$.01 per share, outstanding, adjusted for a 1-for-25 reverse stock split effective October 27, 2016. In this Report, all numbers of shares and per share amounts, as appropriate, have been stated to reflect the reverse stock split. Pursuant to an Agreement and Plan of Merger dated effective December 16, 2013, the Company merged with and into a Delaware corporation with the same name that was its wholly-owned subsidiary, with such Delaware corporation as the surviving corporation of the merger. The Company has developed an environmentally safe system for the collection and disposal of infectious fluids that result from surgical procedures and post-operative care. The Company also makes ongoing sales of our proprietary cleaning fluid and filters to users of our systems. In April 2009, the Company received 510(k) clearance from the FDA to authorize the Company to market and sell its STREAMWAY® SYSTEM products.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company has suffered recurring losses from operations and had a stockholders' deficit until August 31, 2015 whereupon the Company closed its public offering of units consisting of common stock, Series B Convertible Preferred Stock and Series A Warrants (the "Units"). There remains though, substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Since inception to June 30, 2017, the Company raised approximately \$27,765,934 in equity, inclusive of \$2,055,000 from a private placement of Series A Convertible Preferred Stock, \$13,555,003 from the public offering of Units completed in 2015, \$1,739,770 from a registered direct offering completed in 2016, \$3,421,188 from the public offering of Units completed in the first quarter of 2017, \$358,312 from the underwriter exercising their option to purchase up to 175,000 additional shares of common stock and to acquire additional warrants to purchase up to 35,000 additional shares of common stock, and \$5,685,000 in debt financing. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

**Recent Accounting Developments**

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, *Revenue from Contracts with Customers* and created a new topic in the FASB Accounting Standards Codification ("ASC"), Topic 606, and has since amended the standard with ASU 2015-14, *Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, ASU 2016-10, *Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing*, and ASU 2016-12, *Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients*. These new standards provide a single comprehensive revenue recognition framework for all entities and supersede nearly all existing U.S. GAAP revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity should recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is designed to create greater comparability for financial statement users across industries and also requires enhanced disclosures. The amendments are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is not permitted. The FASB allows two adoption methods under ASC 606. We currently plan to adopt the standard using the "modified retrospective method." Under that method, we will apply the rules to all contracts existing as of January 1, 2018, recognizing in the beginning retained earnings an adjustment for the cumulative effect of the change and providing additional disclosure comparing results to previous accounting standards. Upon initial evaluation, we believe the requirements of this standard will not result in a significant change to our results.



In June 2014, the FASB issued ASU 2014-12, "*Compensation - Stock Compensation*" providing explicit guidance on how to account for share-based payments granted to employees in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. The amendments in this update are effective.

In August 2014, the FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The new standard requires management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. The standard is effective for public entities for annual and interim periods beginning after December 15, 2016, with early adoption permitted. We implemented in the first quarter of 2017.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. Debt issuance costs related to a recognized debt liability will be presented on the balance sheet as a direct deduction from the debt liability, similar to the presentation of debt discounts, rather than as an asset. Amortization of these costs will continue to be reported as interest expense. ASU 2015-03 is effective.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*, requiring that inventory be measured at the lower of cost and net realizable value. Net realizable value is defined as estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This ASU is effective within annual periods beginning on or after December 15, 2016, including interim periods within that reporting period. This ASU is implemented.

In November 2015, the FASB issued ASU 2015-17, "*Income Taxes (Topic 740)*" providing guidance on the balance sheet classification of deferred taxes. The guidance requires that deferred tax assets and liabilities to be classified as noncurrent in the Balance Sheet. The guidance is effective for fiscal years beginning after December 15, 2016 and for interim periods within those fiscal years, with early adoption permitted. This ASU is implemented.

In January 2016, the FASB issued ASU No. 2016-01, "*Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*" ("ASU 2016-01"). The standard changes how entities measure certain equity investments and present changes in the fair value of financial liabilities measured under the fair value option that are attributable to their own credit. Under the new guidance, entities will be required to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicability exception. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not believe that the adoption of this guidance will have a material impact on the Company's financial statements and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, "*Leases (Topic 842)*" ("ASU 2016-02"), which requires lessees to put most leases on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. The standard states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. The standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2018. Early adoption is permitted. We are currently evaluating the timing of our adoption and the impact that the updated standard will have on our financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "*Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*" ("ASU 2016-09"). ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2016. Early adoption is permitted. This ASU is implemented.

During August 2016, the FASB issued ASU No. 2016-15, “*Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*”, to address diversity in how certain cash receipts and cash payments are presented and classified in the statements of cash flows. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The amendments should be applied using a retrospective transition method to each period presented. If retrospective application is impractical for some of the issues addressed by the update, the amendments for those issues would be applied prospectively as of the earliest date practicable. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of ASU 2016-15 to have a material impact on its financial statements.

We reviewed all other significant newly issued accounting pronouncements and determined they are either not applicable to our business or that no material effect is expected on our financial position and results of our operations.

#### **Valuation of Intangible Assets**

We review identifiable intangible assets for impairment in accordance with ASC 350 — Intangibles — Goodwill and Other, whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Our intangible assets are currently solely the costs of obtaining trademarks and patents. Events or changes in circumstances that indicate the carrying amount may not be recoverable include, but are not limited to, a significant change in the medical device marketplace and a significant adverse change in the business climate in which we operate. If such events or changes in circumstances are present, the undiscounted cash flows method is used to determine whether the intangible asset is impaired. Cash flows would include the estimated terminal value of the asset and exclude any interest charges. If the carrying value of the asset exceeds the undiscounted cash flows over the estimated remaining life of the asset, the asset is considered impaired, and the impairment is measured by reducing the carrying value of the asset to its fair value using the discounted cash flows method. The discount rate utilized is based on management’s best estimate of the related risks and return at the time the impairment assessment is made.

#### **Accounting Policies and Estimates**

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

### **Presentation of Taxes Collected from Customers**

Sales taxes are imposed on the Company's sales to nonexempt customers. The Company collects the taxes from customers and remits the entire amounts to the governmental authorities. The Company's accounting policy is to exclude the taxes collected and remitted from revenues and expenses.

### **Shipping and Handling**

Shipping and handling charges billed to customers are recorded as revenue. Shipping and handling costs are recorded within cost of goods sold on the statement of operations.

### **Advertising**

Advertising costs are expensed as incurred. Advertising expenses were \$17,409 and \$21,680 in the three and six months ended June 30, 2017 and were \$42,665 and \$46,662 in the three and six months ended June 30, 2016, respectively.

### **Research and Development**

Research and development costs are charged to operations as incurred. Research and development expenses were \$69,987 and \$154,459 in the three and six months ended June 30, 2017 and were \$100,234 and \$222,395 in the three and six months ended June 30, 2016, respectively.

### **Revenue Recognition**

The Company recognizes revenue in accordance with the SEC's Staff Accounting Bulletin Topic 13 Revenue Recognition and ASC 605-Revenue Recognition.

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable and collectability is probable. Delivery is considered to have occurred upon either shipment of the product or arrival at its destination based on the shipping terms of the transaction. The Company's standard terms specify that shipment is FOB Skyline and the Company will, therefore, recognize revenue upon shipment in most cases. This revenue recognition policy applies to shipments of the STREAMWAY SYSTEM units as well as shipments of filters and fluids. When these conditions are satisfied, the Company recognizes gross product revenue, which is the price it charges generally to its customers for a particular product. Under the Company's standard terms and conditions, there is no provision for installation or acceptance of the product to take place prior to the obligation of the customer. The customer's right of return is limited only to the Company's standard one-year warranty whereby the Company replaces or repairs, at its option, and it would be rare that the STREAMWAY SYSTEM unit or significant quantities of cleaning solution or filters may be returned. Additionally, since the Company buys the STREAMWAY SYSTEM units, cleaning solution and filters from "turnkey" suppliers, the Company would have the right to replacements from the suppliers if this situation should occur.

### **Cash Equivalents**

The Company considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents are stated at cost, which approximates fair value.

### **Certificates of Deposit**

Short-term interest bearing investments are those with maturities of less than one year but greater than three months when purchased. Certificates with maturity dates beyond one year are classified as noncurrent assets. These investments are readily convertible to cash and are stated at cost plus accrued interest, which approximates fair value.

## Investment Securities

Readily marketable investments in debt and equity securities are classified as available-for-sale and are reported at fair value with unrealized gains and losses recorded in other comprehensive income. Unrealized gains are charged to earnings when an incline in fair value above the cost basis is determined to be other-than-temporary. Realized gains and losses on dispositions are based on the net proceeds and the adjusted book value of the securities sold, using the specific identification method.

## Fair Value Measurements

Under generally accepted accounting principles as outlined in the Financial Accounting Standards Board's *Accounting Standards Codification* (ASC) 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The accounting standards ASC 820 establishes a three-level fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability as follows:

Level 1 – Observable inputs such as quoted prices in active markets;

Level 2 – Inputs other than quoted prices in active markets, that are observable either directly or indirectly; and

Level 3 – Unobservable inputs where there is little or no market data, which requires the reporting entity to develop its own assumptions.

The Company uses observable market data, when available, in making fair value measurements. Fair value measurements are classified according to the lowest level input that is significant to the valuation.

The fair value of the Company's investment securities was determined based on Level 1 inputs.

## Receivables

Receivables are reported at the amount the Company expects to collect on balances outstanding. The Company provides for probable uncollectible amounts through charges to earnings and credits to the valuation based on management's assessment of the current status of individual accounts, changes to the valuation allowance have not been material to the financial statements.

## Inventories

Inventories are stated at the lower of cost or market, with cost determined on a first-in, first-out basis. Inventory balances are as follows:

	June 30, 2017	December 31, 2016
Finished goods	\$ 28,923	\$ 38,201
Raw materials	161,833	165,812
Work-In-Process	51,448	68,195
Total	<u>\$ 242,204</u>	<u>\$ 272,208</u>

## Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the respective assets. Estimated useful asset life by classification is as follows:

	Years		
Computers and office equipment	3	-	7
Leasehold improvements		5	
Manufacturing tooling	3	-	7
Demo Equipment		3	

The Company's investment in Fixed Assets consists of the following:

	<b>June 30, 2017</b>	<b>December 31, 2016</b>
<b>Computers and office equipment</b>	\$ 177,641	\$ 164,318
<b>Leasehold improvements</b>	25,635	25,635
<b>Manufacturing tooling</b>	107,955	103,204
<b>Demo equipment</b>	43,798	23,236
<b>Total</b>	<u>355,029</u>	<u>316,393</u>
<b>Less: Accumulated depreciation</b>	245,100	214,897
<b>Total Fixed Assets, Net</b>	<u>\$ 109,929</u>	<u>\$ 101,496</u>

Upon retirement or sale, the cost and related accumulated depreciation are removed from the balance sheet and the resulting gain or loss is reflected in operations. Maintenance and repairs are charged to operations as incurred.

Depreciation expense was \$14,519 and \$30,204 in the three and six months ended June 30, 2017, and was \$19,212 and \$38,420 for the three and six months ended June 30, 2016, respectively.

#### **Intangible Assets**

Intangible assets consist of trademarks and patent costs. Amortization expense was \$2,902 and \$5,790 in the three and six months ended June 30, 2017, and was \$1,878 and \$3,710 in the three and six months ended June 30, 2016, respectively. The assets are reviewed for impairment annually, and impairment losses, if any, are charged to operations when identified.

#### **Income Taxes**

The Company accounts for income taxes in accordance with ASC 740- Income Taxes ("ASC 740"). Under ASC 740, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and net operating loss and credit carryforwards using enacted tax rates in effect for the year in which the differences are expected to impact taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

There is no income tax provision in the accompanying statements of operations due to the cumulative operating losses that indicate a 100% valuation allowance for the deferred tax assets and state income taxes is appropriate.

The Company reviews income tax positions expected to be taken in income tax returns to determine if there are any income tax uncertainties. The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by taxing authorities, based on technical merits of the positions. The Company has identified no income tax uncertainties.

Tax years subsequent to 2013 remain open to examination by federal and state tax authorities.

#### **Summary of Significant Accounting Policies**

In March 2016, the FASB issued ASU 2016-09, "improvements to Employee Share-Based Payment Accounting," which requires companies to recognize additional tax benefits or expenses related to the vesting or settlement of employee share based awards as income tax provision or benefit in the income statement in the reporting period in which they occur. In addition, ASU 2016-09 requires that all tax related cash flows resulting from share-based payments, including the excess tax benefits related to settlement of stock-based awards, be classified as cash flows from operating activities in the statement of cash flows. The new standard is effective for annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company did not elect to early adopt ASU 2016-09, but rather adopted the guidance in the first quarter of 2017.

The adoption of ASU 2016-09 required no retrospective adjustments to the financial statements. In addition, there was no material cumulative-effect adjustment to retained earnings, nor did the adoption impact the tax provision for the prior or current quarter.

### **Income Tax Balance Sheet Classification**

In November 2015, the FASB issued ASU 2015-17, "Income Taxes (Topic 740)" providing guidance on the balance sheet classification of deferred taxes. The guidance requires that deferred tax assets and liabilities to be classified as noncurrent in the Balance Sheet. The guidance is effective for fiscal years beginning after December 15, 2016 with early adoption permitted. The Company adopted ASU 2015-17 in the first quarter of 2017 on a prospective basis and therefore prior periods were not retrospectively adjusted.

### **Patents and Intellectual Property**

On January 25th, 2014, the Company filed a non-provisional PCT Application No. PCT/US2014/013081 claiming priority from the U.S. Provisional Patent Application, number 61756763 which was filed one year earlier on January 25th, 2013. The Patent Cooperation Treaty ("PCT") allows an applicant to file a single patent application to seek patent protection for an invention simultaneously in each of the 148 countries of the PCT, including the United States. By filing this single "international" patent application through the PCT, it is easier and more cost effective than filing separate applications directly with each national or regional patent office in which patent protection is desired.

Our PCT patent application is for the enhanced model of the surgical fluid waste management system. We obtained a favorable International Search Report from the PCT searching authority indicating that the claims in our PCT application are patentable (i.e., novel and non-obvious) over the cited prior art. A feature claimed in the PCT application is the ability to maintain continuous suction to the surgical field while measuring, recording and evacuating fluid to the facilities sewer drainage system. This provides for continuous operation of the STREAMWAY System unit in suctioning waste fluids, which means that suction is not interrupted during a surgical operation, for example, to empty a fluid collection container or otherwise dispose of the collected fluid.

The Company holds the following granted patents in the United States and a pending application in the United States on its earlier models: US7469727, US8123731 and U.S. Publication No. US20090216205 (collectively, the "Patents"). These Patents will begin to expire on August 8, 2023.

In July 2015, Skyline Medical filed an international patent application for its fluid waste collection system and received a favorable determination by the International Searching Authority finding that all of the claims satisfy the requirements for novelty, inventive step and industrial applicability. Skyline anticipates that the favorable International Search Report will result in allowance of its other various national applications.

### **Credit Risk**

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash. The Company places its cash with high credit quality financial institutions and, by policy, generally limits the amount of credit exposure to any one financial institution. The Company has a credit risk concentration because of depositing \$0.9 million of funds in excess of insurance limits in a single bank.

## **Product Warranty Costs**

In the three and six months ending June 30, 2017, the Company incurred approximately \$668 and \$5,012 in current warranty costs and incurred \$1,092 and \$30,981 in warranty costs for the three and six months ending June 30, 2016, respectively.

## **Segments**

The Company operates in two segments for the sale of its medical device and consumable products. Predominantly most of the Company's assets, revenues, and expenses for the three and six months ending June 30, 2017 and for 2016 in entirety were located at or derived from operations in the United States. The Company completed its first sale outside of the United States, in Canada, in March 2017.

## **Risks and Uncertainties**

The Company is subject to risks common to companies in the medical device industry, including, but not limited to, development by the Company or its competitors of new technological innovations, dependence on key personnel, protection of proprietary technology, and compliance with regulations of the FDA and other governmental agencies.

## **Interim Financial Statements**

The Company has prepared the unaudited interim financial statements and related unaudited financial information in the footnotes in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial statements. These interim financial statements reflect all adjustments consisting of normal recurring accruals, which, in the opinion of management, are necessary to present fairly the Company's financial position, the results of its operations and its cash flows for the interim periods. These interim financial statements should be read in conjunction with the annual financial statements and the notes thereto contained in the Form 10-K filed with the SEC on March 15, 2017. The nature of the Company's business is such that the results of any interim period may not be indicative of the results to be expected for the entire year.

## **NOTE 2 – STOCKHOLDERS' EQUITY, STOCK OPTIONS AND WARRANTS**

The Company has an equity incentive plan, which allows issuance of incentive and non-qualified stock options to employees, directors and consultants of the Company, where permitted. The exercise price for each stock option is determined by the Board of Directors. Vesting requirements are determined by the Board of Directors when granted and currently range from immediate to three years. Options under this plan have terms ranging from three to ten years.

### **2015 Public Offering of Units**

On August 31, 2015 (the "Issuance Date"), the Company completed a public offering (the "Offering") of 1,666,667 Units (the "Units") as described below. The public offering price in the Offering was \$9.00 per Unit, and the purchase price for the underwriter of the Offering (the "Underwriter") was \$8.28 per Unit, resulting in an underwriting discount and commission of \$0.72 (or 8.00%) per Unit and total net proceeds to the Company before expenses of \$13.8 million. The Company had granted the Underwriter an option for a period of 45 days to purchase up to an additional 250,000 Units solely to cover over-allotments. The Underwriter chose not to purchase any additional Units under the over-allotment option. The Company paid to the Underwriter a non-accountable expense allowance equal to 1% of the gross proceeds of the Offering and agreed to reimburse expenses incurred by the Underwriter up to \$70,000.

On August 31, 2015, because of the consummation of the Offering and the issuance of the 228,343 Exchange Units in the Unit Exchange described below, the Company issued a total of 1,895,010 Units, comprised of a total of aggregate of 75,801 shares of Common Stock, 1,895,010 shares of Series B Preferred Stock and 7,580,040 Series A Warrants.

Each Unit consisted of one share of common stock, par value \$0.01 per share (the "Common Stock"), one share of Series B Convertible Preferred Stock ("Series B Preferred Stock") and four Series A Warrants. The shares of Common Stock, the shares of Series B Preferred Stock and the Series A Warrants that comprise the Units automatically separated on February 29, 2016.

For a description of the terms of the Series B Convertible Preferred Stock included within the Units, see "Series B Preferred Stock" below. For a description of the terms of the Series A Warrants included within the Units, see "Series A Warrants" below.

*Series A Warrants.* The Series A Warrants separated from the Series B Convertible Preferred Stock and the Common Stock included within the Units as described above and are currently exercisable. The Series A Warrants terminate on August 31, 2020. Each Series A Warrant is exercisable into one share of Common Stock at an initial cash exercise price of \$123.75 per share. The cash exercise price and number of shares of common stock issuable upon cash exercise is subject to appropriate adjustment in the event of stock dividends, stock splits, reorganizations or similar events affecting the Common Stock and the exercise price.

Holders may exercise Series A Warrants by paying the exercise price in cash or, in lieu of payment of the exercise price in cash, by electing to receive a number of shares of Common Stock equal to the Black-Scholes Value (as defined below) based upon the number of shares the holder elects to exercise. The number of shares of Common Stock to be delivered will be determined according to the following formula, referred to as the "Cashless Exercise."

$$\text{Total Shares} = (A \times B) / C$$

Where:

- Total Shares is the number of shares of Common Stock to be issued upon a Cashless Exercise.
- A is the total number of shares with respect to which the Series A Warrant is then being exercised.
- B is the Black-Scholes Value (as defined below).
- C is the closing bid price of the Common Stock as of two trading days prior to the time of such exercise, provided that in no event may "C" be less than \$0.43 per share (subject to appropriate adjustment in the event of stock dividends, stock splits or similar events affecting the Common Stock).

The Black-Scholes Value (as defined above) as of September 30, 2016, was \$4.319, and the closing bid price of Common Stock as of September 30, 2016, was \$4.125. Therefore, an exercise on that date would have resulted in the issuance of 40 shares of Common Stock for each Series A Warrant. Approximately 6,141,115 Series A Warrants have been exercised in cashless exercises as of September 30, 2016, resulting in the issuance of 2,318,663 shares of Common Stock. If all of the remaining 35,084 Series A Warrants that were issued as part of the Units sold in the Offering and part of the Units issued on August 31, 2015 were exercised pursuant to a cashless exercise and the closing bid price of our common stock as of the two trading days prior to the time of such exercise was \$0.43 per share or less and the Black-Scholes Value were \$4.319 (the Black-Scholes Value as of September 30, 2016), then a total of an additional approximately 564 shares of our common stock would be issued to the holders of such Series A Warrants. There have been no further events related to above.

The Series A Warrants will not be exercisable or exchangeable by the holder of such warrants to the extent (and only to the extent) that the holder or any of its affiliates would beneficially own in excess of 4.99% of the common stock of the Company, determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended, and the regulations promulgated thereunder.



In addition to (but not duplicative of) the adjustments to the exercise price and the number of shares of Common Stock issuable upon exercise of the Series A Warrants in the event of stock dividends, stock splits, reorganizations or similar events, the Series A Warrants provide for certain adjustments if the Company, at any time prior to the three year anniversary of the Issuance Date, (1) declares or makes any dividend or other distribution of its assets (or rights to acquire its assets) to all or substantially all of the holders of shares of Common Stock at any time after the Issuance Date, or (2) grants, issues or sells any options, convertible securities or rights to purchase stock, warrants, securities or other property pro rata to all or substantially all of the record holders of any class of shares of Common Stock. Further, if at any time a Series A Warrant is outstanding, the Company consummates any fundamental transaction, as described in the Series A Warrants and generally including any consolidation or merger into another corporation, or the sale of all or substantially all of our assets, or other transaction in which the Common Stock is converted into or exchanged for other securities or other consideration, the holder of any Series A Warrants will thereafter receive, the securities or other consideration to which a holder or the number of shares of Common Stock then deliverable upon the exercise or exchange of such Series A Warrants would have been entitled upon such consolidation or merger or other transaction.

*Unit Purchase Option.* The Company, in connection with the Offering, entered into a Unit Purchase Option Agreement, dated as of August 31, 2015 (the “Unit Purchase Option”), pursuant to which the Company granted the Underwriter the right to purchase from the Company up to a number of Units equal to 5% of the Units sold in the Offering (or up to 83,333 Units) or the component securities of such Units at an exercise price equal to 125% of the public offering price of the Units in the Offering, or \$11.25 per Unit. The Unit Purchase Option was terminated in May 2016 in exchange for 135,995 shares of common stock.

*Series B Preferred Stock.* Each share of Series B Preferred Stock became convertible into one share of Common Stock (subject to appropriate adjustment in the event of stock dividends, stock splits, reorganizations or similar events) on the six-month anniversary of the Issuance Date or on the date of an Early Separation. In addition, the Series B Preferred Stock will automatically convert into shares of common stock upon the occurrence of a fundamental transaction, as described in the certificate of designations for the Series B Preferred Stock but including mergers, sales of the company’s assets, changes in control and similar transactions. The Series B Preferred Stock is not convertible by the holder of such preferred stock to the extent (and only to the extent that the holder or any of its affiliates would beneficially own in excess of 4.99% of the common stock of the Company. The Series B Preferred Stock has no voting rights, except for the right to approve certain amendments to the certificate of designations or similar actions. With respect to payment of dividends and distribution of assets upon liquidation or dissolution or winding up of the Company, the Series B Preferred Stock shall rank equal to the common stock of the Company. No sinking fund has been established for the retirement or redemption of the Series B Preferred Stock.

*Unit Exchange.* On February 4, 2014, the Company raised \$2,055,000 in gross proceeds from a private placement of 20,550 shares of Series A Convertible Preferred Stock, par value \$0.01, with a stated value of \$100 per share (the “Series A Preferred Shares”) and warrants to purchase shares of the Company’s common stock. The Series A Preferred Shares and warrants were sold to investors pursuant to a Securities Purchase Agreement, dated as of February 4, 2014. On August 31, 2015, the Company issued a total of 228,343 Units (the “Exchange Units”) in exchange for the outstanding Series A Preferred Stock which were then cancelled pursuant to an agreement with the holders of the Series A Preferred Shares. The warrants that were issued in connection with the issuance of the Series A Preferred Shares remained outstanding; however, the warrant amounts were reduced so that the warrants are exercisable into an aggregate of 3,991 shares of the Company’s common stock. The Exchange Units were exempt from registration under Section 3(a)(9) of the Securities Act. On August 31, 2015, the Company filed a termination certificate with the Delaware Secretary of State. Following that date there were no shares of Series A Preferred Stock outstanding, and the previously authorized shares of Series A Preferred Stock resumed the status of authorized but unissued and undesignated shares of preferred stock of the Company.

*Redemption of Convertible Notes.* In connection with the closing of the Offering, \$933,074 aggregate principal amount of Convertible Notes plus interest and a 40% redeemable premium were redeemed for total payments of \$1,548,792. See Note 3. Of this amount, approximately \$167,031 was paid to its affiliates in redemption of their Convertible Notes.

*Registered Exchange Offer for Warrants.* On March 25, 2016, the Company commenced a registered exchange offer (the “Exchange Offer”) to exchange Series B Warrants (the “Series B Warrants”) to purchase shares of our common stock, par value \$0.01 per share (the “Warrant Shares”), for up to an aggregate of 3,157,186 outstanding Series A Warrants (the “Series A Warrants”). On March 31, 2016, each Series A Warrant could be exercised on a cashless basis for 10.05 shares of common stock. Each Series B Warrant may be exercised on a cashless basis for one share of common stock. For each outstanding Series A Warrant tendered by holders, we offered to issue 10.2 Series B Warrants, which are subject to cashless exercise at a fixed rate of one share of common stock per Series B Warrant (subject to further adjustment for stock splits, etc.). The Exchange Offer expired at midnight, Eastern time, on April 21, 2016. 1,770,556 Series A Warrants were tendered by holders. The Company delivered an aggregate of 18,059,671 Series B Warrants pursuant to the terms of the Exchange Offer. In addition, between March 31, 2016 and July 6, 2016 1,251,510 Series A Warrants were exercised in cashless exercises, resulting in the issuance of 20,122 shares of common stock.

#### *2016 Registered Direct Offering*

On November 29, 2016, the Company closed a registered direct offering for gross proceeds of \$1,983,337. The offering consisted of 756,999 shares of common stock priced at \$2.62 per share and five-year warrants for 756,999 shares of common stock that become exercisable in six months, with a strike price of \$4.46 per share. The net proceeds from the sale of securities, after deducting placement agent fees and related offering expenses, was \$1,739,770.

#### *2017 Firm Commitment Public Offering*

On January 13, 2017, the Company announced the pricing of a firm commitment underwritten public offering of 1,750,000 Units at an offering price of \$2.25 per Unit, with each Unit consisting of one share of the Company’s common stock and 0.2 of a Series D Warrant, with each whole Series D Warrant purchasing one share of our common stock at an exercise price \$2.25 per whole share. The shares of common stock and the Series D Warrants were immediately separable and were issued separately. Gross proceeds to the Company from the offering was approximately \$3,937,500 before deducting underwriting discounts and commissions and other estimated offering expenses payable by the Company. The Company has granted the underwriter a 45-day option to purchase an additional (i) up to 175,000 additional shares of common stock at the public offering price per unit less the price per warrant included in the unit and less the underwriting discount and/or (ii) additional warrants to purchase up to 35,000 additional shares of common stock at a purchase price of \$0.01 per warrant to cover over-allotments, if any. The offering closed on January 19, 2017. The underwriter exercised this option, and on February 22, 2017, the Company received gross proceeds of approximately \$358,312.

#### *Accounting for share-based payment*

The Company has adopted ASC 718- Compensation-Stock Compensation (“ASC 718”). Under ASC 718 stock-based employee compensation cost is recognized using the fair value based method for all new awards granted after January 1, 2006 and unvested awards outstanding at January 1, 2006. Compensation costs for unvested stock options and non-vested awards that were outstanding at January 1, 2006, are being recognized over the requisite service period based on the grant-date fair value of those options and awards, using a straight-line method. We elected the modified-prospective method under which prior periods are not retroactively restated.

ASC 718 requires companies to estimate the fair value of stock-based payment awards on the date of grant using an option-pricing model or other acceptable means. The Company uses the Black-Scholes option valuation model which requires the input of significant assumptions including an estimate of the average period of time employees will retain vested stock options before exercising them, the estimated volatility of the Company’s common stock price over the expected term, the number of options that will ultimately be forfeited before completing vesting requirements, the expected dividend rate and the risk-free interest rate. Changes in the assumptions can materially affect the estimate of fair value of stock-based compensation and, consequently, the related expense recognized. The assumptions the Company uses in calculating the fair value of stock-based payment awards represent the Company’s best estimates, which involve inherent uncertainties and the application of management’s judgment. As a result, if factors change and the Company uses different assumptions, the Company’s equity-based compensation expense could be materially different in the future.

Since the Company's common stock has no significant public trading history, and the Company has experienced no significant option exercises in its history, the Company is required to take an alternative approach to estimating future volatility and estimated life and the future results could vary significantly from the Company's estimates. The Company compiled historical volatilities over a period of 2 to 7 years of 15 small-cap medical companies traded on major exchanges and 10 mid-range medical companies on the OTC Bulletin Board and combined the results using a weighted average approach. In the case of ordinary options to employees the Company determined the expected life to be the midpoint between the vesting term and the legal term. In the case of options or warrants granted to non-employees, the Company estimated the life to be the legal term unless there was a compelling reason to make it shorter.

When an option or warrant is granted in place of cash compensation for services, the Company deems the value of the service rendered to be the value of the option or warrant. In most cases, however, an option or warrant is granted in addition to other forms of compensation and its separate value is difficult to determine without utilizing an option pricing model. For that reason the Company also uses the Black-Scholes option-pricing model to value options and warrants granted to non-employees, which requires the input of significant assumptions including an estimate of the average period the investors or consultants will retain vested stock options and warrants before exercising them, the estimated volatility of the Company's common stock price over the expected term, the number of options and warrants that will ultimately be forfeited before completing vesting requirements, the expected dividend rate and the risk-free interest rate. Changes in the assumptions can materially affect the estimate of fair value of stock-based consulting and/or compensation and, consequently, the related expense recognized.

Since the Company has limited trading history in its stock and no first-hand experience with how its investors and consultants have acted in similar circumstances, the assumptions the Company uses in calculating the fair value of stock-based payment awards represent its best estimates, which involve inherent uncertainties and the application of management's judgment. As a result, if factors change and the Company uses different assumptions, the Company's equity-based consulting and interest expense could be materially different in the future.

#### *Valuation and accounting for options and warrants*

The Company determines the grant date fair value of options and warrants using a Black-Scholes option valuation model based upon assumptions regarding risk-free interest rate, expected dividend rate, volatility and estimated term.

In January 2015, the Company issued a dividend adjustment to the Purchasers of the Preferred Shares as described above. Certain previous dividends paid were calculated with an exercise price of \$487.50 per share, but should have been calculated at \$243.75 per share. As a result, 125 shares of common stock were issued to 16 holders of Preferred Shares.

On March 31, 2015, the Company issued dividends to the Purchasers of the Preferred Shares as described above. The dividends are at an annual rate of 6% of the stated value of the Preferred Shares paid on a quarterly basis in the form of common stock per a stipulated \$243.75 per share. Thus, 125 shares of common stock were issued to 16 holders of Preferred Shares.

On June 30, 2015, the Company issued dividends to Purchases of the Preferred Shares as described above. The dividends are at an annual rate of 6% of the stated value of the Preferred Shares paid on a quarterly basis in the form of common stock per a stipulated \$243.75 per share. Thus, 125 shares of common stock were issued to 16 holders of Preferred Shares.

For grants of stock options and warrants in 2015 the Company used a 1.63% to 2.35% risk-free interest rate, 0% dividend rate, 59% to 66% volatility and estimated terms of 5 to 10 years. Value computed using these assumptions ranged from \$6.875 to \$139.2375 per share.

On March 25, 2016, the Company commenced the Exchange Offer which was completed on April 20, 2016, as described above.

On July 1, 2016, the Company issued inducement stock options in accordance with NASDAQ listing rule for 40,000 shares of common stock, par value \$0.01 at \$3.75 per share to the Company's newly hired Vice President of Sales. The options will vest in six equal increments: on the first, second, third, fourth, fifth and sixth quarters of the hiring date anniversary.

On October 4, 2016, the Company issued 400,000 shares of common stock, par value \$0.01, to be held in escrow in connection with the Company's Partnership and Exclusive Reseller Agreement with GLG Pharma, LLC.

For grants of stock options and warrants in 2016 the Company used a 1.46% to 2.45% risk free interest rate, 0% dividend rate, 59% to 66% volatility and estimated terms of 5 to 10 years. Value computed using these assumptions ranged from \$1.6329 to \$3.7195 per share.

On April 19, 2017, the Company received 400,000 shares of common stock, par value \$.01, that was held in escrow pursuant to the termination of the Company's Partnership and Exclusive Reseller Agreement with GLG Pharma, LLC.

For grants of stock option and warrants in 2017 the Company used a 1.92% to 2.40% risk free interest rate, 0% dividend rate, 59% to 66% volatility and estimated terms of 5 to 10 years. Value computed using these assumptions ranged from \$1.0293 to \$1.5489 per share.

The following summarizes transactions for stock options and warrants for the periods indicated:

	Stock Options		Warrants	
	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Outstanding at December 31, 2015	31,350	\$ 133.23	323,099	\$ 128.40
Issued	157,982	3.14	1,487,881	0.71
Expired	(22,377)	122.13	-	-
Exercised	(1,312)	65.75	(939,879)	-
Outstanding at December 31, 2016	165,643	\$ 11.22	871,101	\$ 52.22
Issued	2,442,168	1.47	385,000	2.25
Expired	(12,730)	10.39	(304)	281.95
Exercised	-	-	-	-
Outstanding at June 30, 2017	<u>2,595,081</u>	<u>\$ 2.05</u>	<u>1,255,797</u>	<u>\$ 36.84</u>

At June 30, 2017, 48,645 stock options are fully vested and currently exercisable with a weighted average exercise price of \$28.41 and a weighted average remaining term of 8.69 years. There are 1,255,797 warrants that are fully vested and exercisable. Stock-based compensation recognized for the six months ending June 2017 and June 2016 was \$(18,276) and \$48,649, respectively. The Company has \$2,893,315 of unrecognized compensation expense related to non-vested stock options that are expected to be recognized over the next 27 months.

The following summarizes the status of options and warrants outstanding at June 30, 2017:

	<i>Range of Prices</i>	<i>Shares</i>	<i>Weighted Remaining Life</i>
Options			
	\$ 1.47	2,427,882	9.98
	\$ 2.10	14,286	9.76
	\$ 2.25	293	9.16
	\$ 2.42	24,768	9.14
	\$ 2.80	57,145	9.51
	\$ 3.75	44,000	9.01
	\$ 4.125	3,636	9.26
	\$ 4.1975	7,147	9.22
	\$ 4.25	3,529	8.76
	\$ 5.125	3,902	9.19
	\$ 65.75	190	8.31
	\$ 73.50	1,157	8.51
	\$ 77.50	2,323	8.01
	\$ 80.25	187	8.26
	\$ 86.25	232	7.76
	\$ 131.25	81	5.19
	\$ 148.125	928	5.72
	\$ 150.00	1,760	5.13
	\$ 162.50	123	7.51
	\$ 206.25	121	7.26
	\$ 248.4375	121	6.04
	\$ 262.50	130	6.04
	\$ 281.25	529	5.55
	\$ 318.75	3	5.86
	\$ 346.875	72	6.76
	\$ 431.25	306	6.69
	\$ 506.25	188	6.51
	\$ 596.25	42	6.25
		2,595,081	
Warrants			
	\$ 2.25	385,000	4.57
	\$ 4.46	756,999	4.42
	\$ 93.75	2,255	0.70
	\$ 123.75	94,084	3.17
	\$ 150.00	4,114	0.70
	\$ 225.00	107	0.57
	\$ 243.75	2,529	2.10
	\$ 281.25	5,593	0.48
	\$ 309.375	2,850	2.11
	\$ 309.50	222	2.36
	\$ 337.50	178	0.97
	\$ 371.25	944	0.91
	\$ 506.25	59	1.63
	\$ 609.375	862	1.60
		1,255,797	

Stock options and warrants expire on various dates from August 2017 to June 2027.

At a special meeting of stockholders held on September 15, 2016, the Company's stockholders (i) approved an amendment to the Company's certificate of incorporation to increase the number of authorized shares of common stock from 100,000,000 to 200,000,000 and (ii) approved an amendment to the Company's certificate of incorporation to affect a reverse stock split of the outstanding shares of its common stock within certain limits. On September 16, 2016, the Company filed a Certificate of Amendment to its Certificate of Incorporation to affect the increase in the authorized capital stock. On October 26, 2016, the Company filed a Certificate of Amendment to its Certificate of Incorporation to affect a reverse stock split of the outstanding shares of its common stock at a ratio of one-for-twenty-five (1:25), and a proportionate decrease of the authorized common stock from 200,000,000 shares to 8,000,000 shares. The reverse stock split took effect at 5:00 p.m. New York time on October 27, 2016, and the Company's common stock commenced trading on a post-split basis on October 28, 2016.

The Company's board of directors had determined the Company may require additional shares for anticipated equity financings, future equity offerings, strategic acquisition opportunities, and the continued issuance of equity awards under our stock incentive plan to recruit and retain key employees, and for other proper corporate purposes. As a result, the board of directors called another special meeting of the stockholders that took place on January 29, 2017. The vote, a proposal to increase the number of authorized shares of common stock from 8,000,000 shares to 24,000,000 shares of common stock under the Company's certificate of incorporation passed.

### Stock Options and Warrants Granted by the Company

The following table is the listing of stock options and warrants as of June 30, 2017, by year of grant:

#### Stock Options:

Year	Shares	Price		
2011	173	\$ 281.25		
2012	1,841	131.25	–	150.00
2013	1,553	148.13	–	596.25
2014	835	162.50	–	431.25
2015	4,088	65.75	–	86.25
2016	144,423	2.25	–	5.13
2017	2,442,168	1.47	–	2.10
Total	2,595,081	\$ 1.47	–	596.25

#### Warrants:

Year	Shares	Price		
2012	2,488	\$ 281.25		
2013	10,703	93.75	–	371.25
2014	6,455	243.75	–	609.38
2015	94,152	0.00	–	243.75
2016	756,999	4.46		
2017	385,000	2.25		
Total	1,255,797	\$ 0.00	–	609.38

### NOTE 3 – SHORT-TERM NOTES PAYABLE

From July through September 2014, we entered into a series of securities purchase agreements pursuant to which we issued approximately \$1.8 million original principal amount (subsequently reduced to approximately \$1.6 million aggregate principal amount in accordance with their terms) of convertible promissory notes (the “2014 Convertible Notes”) and warrants exercisable for shares of our common stock for an aggregate purchase price of \$1,475,000. Of this amount, we issued to SOK Partners, LLC, an affiliate of the Company, \$122,196 original principal amount of the 2014 Convertible Notes and warrants exercisable for 5,431 shares of our common stock for an aggregate purchase price of \$100,000. In April and May 2015, we issued and sold to a private investor additional Convertible Notes in an aggregate original principal amount of \$275,000 for an aggregate purchase price of \$250,000, containing terms substantially similar to the 2014 Convertible Notes (the “2015 Convertible Notes” and, together with the 2014 Convertible Notes, the “Convertible Notes”). No warrants were issued with the 2015 Convertible Notes.

Under a provision in the existing agreements, upon effectiveness of a resale registration statement covering certain shares, on September 9, 2014, the principal amount of the notes was reduced by 11%, to \$1,603,260 and the number of Warrants was reduced by 11%, to 2,851 shares.

In connection with the Offering, the holders of the Convertible Notes agreed to not exercise their right to convert the Convertible Notes into shares of the Company’s common stock, in exchange for the Company’s agreement to redeem all of the outstanding Convertible Notes promptly following the consummation of the Offering at a redemption price equal to 140% of the principal amount, plus accrued and unpaid interest to the redemption date. On August 31, 2015, the closing date of the offering, the Company redeemed the remaining \$933,074 aggregate principal amount of Convertible Notes plus interest and a 40% redeemable premium, for a total payment of \$1,548,792. Of this amount, approximately \$167,031 was paid to its affiliates in redemption of their Convertible Notes. Each holder of the Convertible Notes agreed to the foregoing terms and entered into an Amendment to Senior Convertible Notes and Agreement with the Company. As of June 30, 2017, none of the Convertible Notes were outstanding.

### NOTE 4 - LOSS PER SHARE

The following table presents the shares used in the basic and diluted loss per common share computations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Numerator				
Net loss available in basic and diluted calculation	\$ (2,543,670)	\$ (2,561,281)	\$ (3,885,517)	\$ (4,737,650)
Other comprehensive income:				
Unrealized gain from marketable securities	-	3,028	-	5,878
Comprehensive (loss)	(2,543,670)	(2,558,253)	(3,885,517)	(4,731,772)
Denominator:				
Weighted average common shares outstanding-basic	6,167,689	2,695,203	6,308,554	1,709,526
Effect of diluted stock options, warrants and preferred stock (1)	-	-	-	-
Weighted average common shares outstanding-basic	6,167,689	2,695,203	6,308,554	1,709,526
Loss per common share-basic and diluted	<u>\$ (0.41)</u>	<u>\$ (0.95)</u>	<u>\$ (0.62)</u>	<u>\$ (2.77)</u>

(1) The number of shares underlying options and warrants outstanding as of June 30, 2017, and June 30, 2016 are 3,850,878 and 398,775 respectively. The number of shares underlying the preferred stock as of June 30, 2017, is 79,246. The effect of the shares that would be issued upon exercise of such options, warrants and preferred stock has been excluded from the calculation of diluted loss per share because those shares are anti-dilutive.



## NOTE 5 – INCOME TAXES

The provision for income taxes consists of an amount for taxes currently payable and a provision for tax consequences deferred to future periods. Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which whose temporary differences are expected to be recovered or settled.

There is no income tax provision in the accompanying statements of operations and comprehensive income due to the cumulative operating losses that indicate 100% valuation allowance for the deferred tax assets and state income taxes is appropriate.

During September 2013, the Company experienced an "ownership change" as defined in Section 382 of the Internal Revenue Code which could potentially limit the ability to utilize the Company's net operating losses (NOLs). The Company may have experienced additional "ownership change(s)" since September 2013, but a formal study has not yet been performed. The general limitation rules allow the Company to utilize its NOLs subject to an annual limitation that is determined by multiplying the federal long-term tax-exempt rate by the Company's value immediately before the ownership change.

At December 31, 2016, the Company had approximately \$30.9 million of gross NOLs to reduce future federal taxable income, the majority of which are expected to be available for use in 2017, subject to the Section 382 limitation described above. The federal NOLs will expire beginning in 2022 if unused. The Company also had approximately \$13.0 million of gross NOLs to reduce future state taxable income at December 31, 2016, in which the expiration varies by state. The Company's net deferred tax assets, which include the NOLs, are subject to a full valuation allowance. At December 31, 2016, the federal and state valuation allowances were \$10.7 million and \$0.2 million, respectively.

At June 30, 2017, the Company had approximately \$32.6 million of gross NOLs to reduce future federal taxable income, the majority of which are expected to be available for use in 2017, subject to the Section 382 limitation described above. The federal NOLs will expire beginning in 2022 if unused. The Company also had approximately \$13.6 million of gross NOLs to reduce future state taxable income at June 30, 2017, which will expire in years 2022 through 2037 if unused. The Company's net deferred tax assets, which include the NOLs, are subject to a full valuation allowance. At June 30, 2017, the federal and state valuation allowances were \$11.0 million and \$0.2 million, respectively.

The valuation allowance has been recorded due to the uncertainty of realization of the benefits associated with the net operating losses. Future events and changes in circumstances could cause this valuation allowance to change.

The components of deferred income taxes at June 30, 2017 and December 31, 2016 are as follows:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Deferred Tax Asset:		
Net Operating Loss	\$ 11,294,000	\$ 10,755,000
Other	334,000	189,000
Total Deferred Tax Asset	11,628,000	10,944,000
Less Valuation Allowance	11,628,000	10,944,000
Net Deferred Income Taxes	<u>\$ —</u>	<u>\$ —</u>

## NOTE 6 – RENT OBLIGATION

The Company leases its principal office under a lease that can be cancelled after three years with proper notice per the lease and an amortized schedule of adjustments that will be due to the landlord. The lease extends five years and expires January 2018. The Company has begun negotiations to sign an extended or new lease to remain in the same principal offices. In addition to rent, the Company pays real estate taxes and repairs and maintenance on the leased property. Rent expense was \$16,114 and \$33,008 for the three and six months ended June 30, 2017 and was \$17,000 and \$33,750 for the three and six months ended June 30, 2016, respectively.

The Company's rent obligation for the next two years is as follows:

2017	\$	19,500
2018	\$	3,000

## NOTE 7 – RELATED PARTY TRANSACTIONS

The Audit Committee has the responsibility to review and approve all transactions to which a related party and the Company may be a party prior to their implementation, to assess whether such transactions meet applicable legal requirements.

One of the Company's directors, Richard L. Gabriel, is the Chief Operating Officer and serves as a director of GLG Pharma ("GLG"). Another Company director, Tim Krochuk, is on the supervisory board for GLG. In September 20, 2016, the Company entered into a partnership and exclusive reseller agreement with GLG. Under the terms of the agreement, GLG would develop rapid diagnostic tests that utilize fluid and tissue collected by the STREAMWAY System during procedures. The Company agreed to issue an aggregate of 400,000 shares of common stock to GLG in four separate tranches of 100,000 shares of common stock in each tranche. The shares reserved in each tranche would be released after the achievement of certain development milestones designated in the agreement. In addition, the Company would pay a royalty to GLG on the sale of individual tests. Also, on November 1, 2016, the Company announced that it agreed to grant GLG exclusive rights to market and distribute the STREAMWAY System in the U.K. On November 2, 2016, the Company announced that it agreed to grant GLG the same rights in Poland and certain other countries in Central Europe. In April 2017, the partnership and exclusive reseller agreement and the distribution agreements between the Company and GLG were terminated.

## NOTE 8 – RETIREMENT SAVINGS PLAN

We have a pre-tax salary reduction/profit-sharing plan under the provisions of Section 401(k) of the Internal Revenue Code, which covers employees meeting certain eligibility requirements. In fiscal 2017 and 2016, we matched 100%, of the employee's contribution up to 4% of their earnings. The employer contribution was \$7,605 and \$17,375 for the three and six months ending June 30, 2017 and was \$9,677 and \$20,795 for the three and six months ending June 30, 2016, respectively.

## NOTE 9 – SUBSEQUENT EVENTS

On July 21, 2017, we entered into a letter of intent with CytoBioscience, Inc. ("CytoBioscience"), pursuant to which our wholly owned subsidiary would merge with and into CytoBioscience. After such merger, CytoBioscience would be our wholly owned subsidiary. CytoBioscience creates and manufactures devices used in human cell research focused on new therapeutic drug development and has a well-known scientific and technical staff, collaborative partnerships with leading pharmaceutical companies and strategic alliances with key groups and academic institutions. In consideration of the merger, we would issue to CytoBioscience's stockholders (i) shares of our common stock equal to 19.8% of our outstanding shares at the time of the merger (less the amount of our shares that are subject to option agreements with employees of CytoBioscience issued or assumed by us at the time of the merger), (ii) shares of Class C Preferred Stock, (iii) shares of Class D Preferred Stock; and (iv) shares of Class E Preferred Stock. The Class C, Class D and Class E Preferred Stock issued in the merger will be non-convertible, non-voting shares (subject to limited, customary protective provisions), and the Class C and Class D Preferred Stock will have a liquidation preference of \$23.7 million and \$1.2 million respectively. The Preferred Stock will be subject to such other rights and preferences agreed upon by us and CytoBioscience. The parties intend to consummate the merger prior to September 30, 2017. The letter of intent contemplates that our Board of Directors will continue to consist of seven directors, and CytoBioscience will have the right to designate two persons to our Board of Directors, and James Garvin, Ph.D., will become our president. Our officers will continue to remain in the same offices after the closing of the merger.

Completion of the merger is subject to execution of a definitive merger agreement and certain conditions to closing, including the receipt of all approvals and consents of governmental bodies, lenders, lessors and third parties, no material adverse changes in the business of CytoBioscience prior to the closing, no pending or threatened litigation regarding the merger, appropriate employment and inducement agreements are executed with employees of CytoBioscience, conversion of all debt and warrants of CytoBioscience into the right to receive the merger consideration, approval by the stockholders of CytoBioscience of the merger, and other customary conditions. In July 2017, we advanced \$300,000 to CytoBioscience and received a promissory note from CytoBioscience payable on December 31, 2017. In August 2017, we advanced \$200,000 to CytoBioscience and received a promissory note from CytoBioscience payable on December 31, 2017.

On July 24, 2017, the Company issued 43,333 shares of common stock, par value \$0.01, to a consultant for general business consulting services pursuant to a contract providing for a reset based on stock performance within a nine-month period.

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

### Overview

We were incorporated in Minnesota in April 2002 under the name BioDrain Medical, Inc. Effective August 6, 2013, the Company changed its name to Skyline Medical Inc. Pursuant to an Agreement and Plan of Merger dated effective December 16, 2013, the Company merged with and into a Delaware corporation with the same name that was its wholly-owned subsidiary, with such Delaware Corporation as the surviving corporation of the merger. We manufacture an environmentally conscientious system for the collection and disposal of infectious fluids that result from surgical procedures and post-operative care. Since our inception in 2002, we have invested significant resources into product development. We believe that our success depends upon converting the traditional process of collecting and disposing of infectious fluids from the operating rooms of medical facilities to our wall-mounted Fluid Management System ("SYSTEM") and use of our proprietary cleaning fluid and bifurcated filter.

We currently have a Vice President of Sales, one in house sales person and four regional sales managers to sell the STREAMWAY SYSTEM. We are evaluating signing independent contractors to further represent the Company across the country and in Canada in the third quarter. We have been issued our Medical Device Establishment License permitting the Company to sell the STREAMWAY SYSTEM and disposables across the 13 provinces of Canada. In March 2017, the Company completed its first sale of a STREAMWAY SYSTEM to a customer in Ontario. In June 2017, we received notice that our STREAMWAY SYSTEM has met all requirements and can now be affixed with the CE mark and marketed in 32 European countries. We have signed a contract with a special consultant to hire distributors throughout Europe and Canada to sell the STREAMWAY SYSTEM. We will be focusing on five or six countries that we believe have a viable need for our product and that can fast track exposure and system sales as early as the fourth quarter.

We have also reached a short-term exclusive agreement with Alliant Healthcare, a major provider of medical device products to the federal government. Alliant Healthcare is a CVE verified SDVOSB (Service-Disabled Veteran-Owned Small Business). The agreement is for ninety days (July 1 – September 30, 2017), with an optional ninety-day renewal term (October 1 – December 31, 2017, the government's first fiscal quarter) upon agreement of both parties.

Since inception, we have been unprofitable. We incurred net losses of approximately \$2.5 million and \$3.9 million for the three and six months ended June 30, 2017, and \$2.6 million and \$4.7 million for the three and six months ended June 30, 2016, respectively. As of June 30, 2017, and June 30, 2016, we had an accumulated deficit of approximately \$50.9 million and \$45.2 million, respectively. We received approval from the FDA in April 2009 to commence sales and marketing activities of the STREAMWAY SYSTEM and shipped the first system in 2009. However, there was no significant revenue prior to 2011, primarily due to lack of funds to build and ship the product.

In the first quarter of 2014, the Company commenced sales of an updated version of the STREAMWAY SYSTEM, which provides several enhancements to the existing product line including a more intuitive and easier to navigate control screen, data storage capabilities, and additional inlet ports on the filters, among other improvements. This updated version utilizes improved technology, including the capability for continuous flow and continuous suctioning, as covered by our provisional patent application filed in 2013 and our non-provisional patent application filed in January 2014. We have sold one hundred one STREAMWAY units to date.

We expect the revenue for STREAMWAY SYSTEM units to increase significantly at such time as significantly more hospitals approve the use of the units for their applications and place orders for billable units. We also expect an increase in trial-based units. Trial basis units are either installed in or hung on the hospital room wall. The unit is connected to the hospital plumbing and sewer systems, as well as, the hospital vacuum system. The unit remains on the customer site for 2 – 4 weeks, as contracted, at no cost to the customer. However, the customer does purchase the disposable products (cleaning fluid and filters) necessary to effectively operate the units. Once the trial period has expired, the unit is either returned to the Company or purchased by the customer. If purchased, at that time, the Company invoices the customer based upon a contracted price negotiated prior to the trial.

We have never generated sufficient revenues to fund our capital requirements. We have funded our operations through a variety of debt and equity instruments. See “Liquidity and Capital Resources – Financing Transaction” below. In 2014, we completed private placements of Series A Preferred Stock and convertible notes raising aggregate gross proceeds of \$3,530,000. In September 2014, we commenced a public offering that was delayed, and we did not complete our public offering until August 2015. During that period of time, due to limited funding and continued operating losses, we curtailed our operations and delayed our expenditures to stay in operation. These factors negatively affected our sales in late 2014 and the full year 2015. On August 31, 2015, the Company completed a public offering of units consisting of common stock, preferred stock and warrants, as well as concurrent uplisting to the NASDAQ Capital Market, resulting in net proceeds of approximately \$13.5 million. On November 30, 2016, the Company completed a registered direct offering of units consisting of common stock and warrants, with net proceeds of approximately \$1.7 million. On January 19, 2017, the Company received net proceeds of \$3.5 million because of a public offering of units consisting of common stock and warrants. Subsequently, in connection with the offering the underwriter exercised their over-allotment option in full; the Company received additional proceeds of \$350,000 on February 22, 2017.

Our future cash requirements and the adequacy of available funds depend on our ability to sell our products and the availability of future financing to fulfill our business plans. See “Plan of Financing; Going Concern Qualification” below.

As a company, our limited history of operations makes prediction of future operating results difficult. We believe that period to period comparisons of our operating results should not be relied on as predictive of our future results.

## Results of Operations

*Revenue.* The Company recognized \$107,000 of revenue in the three months ended June 30, 2017 compared to \$85,000 in revenue in the three months ended June 30, 2016, an increase of 25%. The Company recognized \$282,000 of revenue in the six months ended June 30, 2017, compared to \$182,000 in revenue in the six months ended June 30, 2016, an increase of 55%. There were 3 sales of STREAMWAY units through June 30, 2017, including our first sale of a STREAMWAY System in Canada. Our goal in ramping up our sales efforts following our hiring four regional sales managers is to have a greater revenue effect in the upcoming quarters.

*Cost of sales.* Cost of sales in the three months ended June 30, 2017 was \$22,000 and \$37,000 in the three months ended June 30, 2016, respectively. Cost of sales was \$59,000 in the six months ended June 30, 2017 and \$123,000 in the six months ended June 30, 2016, respectively. The gross profit margin was approximately 79% in the six months ended June 30, 2017, compared to 33% in the prior year. Our margins were reduced in the first half of 2016, as we replaced many of our STREAMWAY units for the new iteration units at no charge to our customers. Increased sales will allow us to achieve volume purchasing discounts on both equipment components and our cleaning solution.

*General and Administrative expense.* General and administrative expense primarily consists of management salaries, professional fees, consulting fees, travel expense, administrative fees and general office expenses.

General and Administrative (G&A) expenses decreased by \$48,000 for the three months ended June 30, 2017 compared to the 2016 period. The decrease in the three-month period was primarily from \$1,019,000 in severance pay incurred during 2016 due to the negotiated settlement with the former CEO. The payout is over an eighteen-month period, but the expense was accounted for in the second quarter of 2016. Additionally, for the three-month periods, investor relations expense decreased by \$110,000 because the Company hired an investment banking firm in 2016 in connection with potential acquisitions. Legal fees were also reduced by \$173,000 as in 2016 we had a Unit Exchange Offer plus the negotiated settlement with the former CEO. Stock based compensation declined by \$95,000 resulting from an adjustment to the Company’s vesting expense pursuant to amended employee stock options in 2017. Recruiting fees declined by \$32,000 in 2017; we hired a Vice President of Sales in 2016. Offsets include: increases to Investors Stock Compensation, \$951,000, due to the direct registered raise in November of 2016, whereby warrants were issued with a six-month vesting period culminating in May 2017; consulting, \$223,000, paid by issuing 100,000 shares of common stock, par value \$0.01, to a consulting firm to assist in sales placements, company acquisitions and hiring product distributors; and, \$206,000 for bonuses that were cancelled in 2016 pursuant to the CEO negotiated settlement.

G&A expenses decreased by \$604,000 for the six months ended June 30, 2017 compared to the 2016 period. The six month decrease was predominantly from the \$1,019,000 severance pay in 2016 explained above; legal expense reduced by \$551,000 explained above; investor relations down by \$118,000 explained above; salaries, benefits and taxes reduced by \$108,000 as the current CEO is not currently on payroll; recruiting fees are reduced by \$79,000 explained above, but offset somewhat for recruiting fees paid in 2017 to hire a controller and quality assurance manager; additional reduced expenses were for stock based compensation, \$28,000, audit and accounting fees, \$14,000, and licenses, permits and fees down by \$21,000. Offsets include: \$971,000 for investment stock compensation explained above; \$223,000 for consulting explained above; \$112,000 in bonuses explained above; and, for \$27,000 in corporate insurance for increased policy rates in 2017.

*Operations expense.* Operations expense primarily consists of expenses related to product development and prototyping and testing in the company's current stage.

Operations expense decreased by \$62,000 in the three months ended June 30, 2017 compared to the three months ended June 30, 2016. Operations expense decreased by \$252,000 in the six months ended June 30, 2017 compared to the six months ended June 30, 2016. The decreases for the three-month period include \$44,000 in stock based compensation resulting from an adjustment to the Company's vesting expense pursuant to amended employee stock options in 2017; less research and development costs, \$30,000 and reduced travel by \$3,000. The largest offset was for \$12,000 regarding salaries per the hiring of the quality assurance manager in 2017. The six-month reductions were from bonuses, \$98,000, from employee stock options exercised in 2016; \$44,000 in stock based compensation explained above; \$68,000 in lower research and development costs; \$20,000 in writing off obsolete inventory; \$10,000 in reduced payroll, taxes and 401k match as the quality assurance manager was not hired until late in the first quarter of 2017; and, \$6,000 in reduced shipping and postage.

*Sales and Marketing expense.* Sales and marketing expense consists of expenses required to sell products through independent reps, attendance at trades shows, product literature and other sales and marketing activities.

Sales and marketing expense increased by \$129,000 in the three months ended June 30, 2017 compared to the three months ended June 30, 2016. The increases for the three-month period resulted from expanding our sales force thus payroll, taxes and benefits were higher by \$103,000; accordingly, travel expenses were increased as well by \$25,000, and commissions were higher by \$8,000 due to increased sales in 2017. Additionally, stock based compensation increased by \$11,000 due to the quarterly vesting of inducement options for our Vice President of Sales, and consulting increased by \$5,000 due to our hiring an advocate for increasing government sales. Offsetting the increases was a reduction in advertising and promotion expenses, \$25,000, due to budgeting our expenses for later in 2017. Sales and marketing expense increased by \$168,000 in the six months ended June 30, 2017 compared to the six months ended June 30, 2016. The increases for the six-month period resulted from expanding our sales force thus payroll, taxes and benefits were higher by \$155,000; accordingly, travel expenses were increased as well by \$44,000, and commissions were higher by \$13,000 due to increased sales in 2017. Additionally, stock based compensation increased by \$6,000 due to the quarterly vesting of inducement options for our Vice President of Sales. Offsetting the increases was a reduction in advertising and promotion expenses, \$30,000, due to budgeting our expenses for later in 2017, and consulting \$25,000 because in 2016 we had hired a firm to advise the Company on Veterans Administration and government sales.

*Interest expense.* There was no interest expense in the first six months of either 2017 or 2016.

## **Liquidity and Capital Resources**

### ***Payment Obligations Under Separation Agreement With Former CEO***

Effective May 5, 2016, Joshua Kornberg resigned as the Chief Executive Officer and President and an employee of the Company. In connection with Mr. Kornberg's resignation, the Company and Mr. Kornberg entered into a separation agreement on June 13, 2016 (the "Separation Agreement"). Pursuant to the Separation Agreement, on July 15, 2016, the Company was required to pay Mr. Kornberg: (a) \$15,433.20 less any required tax withholdings in a lump sum on July 15, 2016; and (b) \$75,000 less any required tax withholdings on July 15, 2016. The Company is required to pay Mr. Kornberg an additional \$75,000 less any required tax withholdings payable in 6 monthly installments of \$12,500, due on the first regular payday of each month, starting on August 15, 2016; and an additional \$450,000 less any required tax withholdings payable in 11 monthly installments of \$40,909, due on the first regular payday of each month, starting on February 15, 2017. The Company issued to Mr. Kornberg a restricted stock award (the "Award") under the Company's stock incentive plan consisting of 20,000 shares. The award vested on July 15, 2016. The value of the award for purposes of the Separation Agreement (the "Award Value") is \$90,350.61, based on a ten-day volume-weighted average closing sale price per share of the Company's common stock. Mr. Kornberg agreed that the withholding taxes in connection with the Award will be offset against cash payments otherwise due to him in four monthly installments. In addition, the Company agreed to, at its option, either (a) pay Mr. Kornberg \$309,649.39 (the "Additional Cash Amount"), equal to the difference between \$400,000 and the Award Value, payable in equal monthly installments of \$40,909, due on the first regular payday of each month, starting on January 15, 2018, less any required tax withholding, or (b) issue to Mr. Kornberg shares of common stock of the Company (the "Additional Shares") on January 15, 2018 with an aggregate fair market equal to the Additional Cash Amount, based on a ten-day volume-weighted average closing sales price per share. Under the Separation Agreement, all of Mr. Kornberg's outstanding stock options and outstanding restricted stock prior to the date of the Separation Agreement were canceled, consisting of options to purchase 22,085 shares and 2,667 shares of restricted stock. The Separation Agreement included a waiver and release of claims by Mr. Kornberg. He will also continue to be bound by the terms of any restrictive covenant agreements he had with the Company.

The foregoing summary of the Separation Agreement does not purport to be complete and is qualified in its entirety by reference to the Separation Agreement, a copy of which was filed on June 17, 2016, as an exhibit to our Current Report on Form 8-K.

### ***Cash Flows***

Net cash used in operating activities was \$2,070,804 for the six months ended June 30, 2017 compared with net cash used of \$2,784,616 for the 2016 period. The \$714,000 decrease in cash used in operating activities was primarily due to the reduced net loss in 2017, and decreases in payables and accruals, partially offset by an increase to vested stock option accounts from warrants issued in the 2017 public offering.

Cash flows used in investing activities was \$2,348,375 for the six months ended June 30, 2017 and \$1,574,825 for the six months ended June 30, 2016. The Company invested in certificates of deposits specifically maintaining balances below \$250,000 in each certificate to maintain FDIC banking protection. There was a moderate increase to purchases in fixed assets and minimal fees related to patents.

Net cash provided by financing activities was \$3,814,938 for the six months ended June 30, 2017 compared to net cash provided of \$86,253 for the six months ended June 30, 2016. The cash provided came from the net proceeds of the January public offering and the over-allotment option exercise by the underwriter.

### ***Capital Resources***

Our cash and cash equivalents were approximately \$1,160,000 as of June 30, 2017, with certificates of deposit of approximately \$2,694,000. We had a cash balance of \$294,000 as of June 30, 2017, with the remainder of our cash equivalents in money market accounts. Since our inception, we have incurred significant losses. As of June 30, 2017, we had an accumulated deficit of approximately \$50,904,000.

From inception to June 30, 2017, our operations have been funded through a bank loan and private convertible debt of approximately \$5,435,000 and equity investments totaling approximately \$27,766,000.

In the first six months of 2017, we recognized \$282,000 in revenues. Our product sales since the end of the second quarter have resulted in approximately \$41,000 in revenues.

### ***Plan of Financing; Going Concern Qualification***

Since our inception, we have incurred significant losses, and our accumulated deficit was approximately \$50.9 million as of June 30, 2017. Our operations from inception have been funded with private placements of convertible debt securities and equity securities, in addition to a past bank loan (not currently outstanding) and a qualified public offering raising a net \$13,555,003 in 2015, after deducting underwriting discounts, commissions and expenses. On November 29, 2016, the Company closed a registered direct offering for net proceeds of \$1,739,770.

On January 19, 2017, the Company closed on an underwritten public offering with net proceeds of \$3,439,125. Additionally, as part of the offering there was an over-allotment option that was exercised by the underwriter netting the Company \$356,563.

We have not achieved profitability and anticipate that we will continue to incur net losses at least through the end of 2017.

We had revenues of \$282,000 in the first six months of 2017, but we had negative operating cash flows of \$2,100,000. The negative cash flow is heavily impacted by our first half loss, which was largely made up of \$2,150,000 of vesting expenses for warrants issued in conjunction with the registered direct offering and the public offering completed in 2016 and 2017, respectively. Our cash balance was \$294,387 as of June 30, 2017, with \$3,600,000 in cash equivalents and certificates of deposit, and our accounts payable and accrued expenses were an aggregate \$1,300,000. We are currently incurring negative operating cash flows of approximately \$345,000 per month. Although we are attempting to curtail our expenses, there is no guarantee that we will be able to reduce these expenses significantly, and expenses for some periods may be higher as we prepare our product for broader sales, increase our sales efforts and maintain adequate inventories.

As of June 30, 2017, the Company had no debt. We will require additional funding to finance entering the international marketplace, and to fund potential acquisitions. We will attempt to raise these funds through equity or debt financing, alternative offerings or other means. If we are successful in securing adequate funding we plan to make significant capital or equipment investments, and we will also continue to make human resource additions over the next 12 months. Such additional financing will be dilutive to existing stockholders, and there is no assurance that such financing will be available upon acceptable terms. If such financing or adequate funds from operations are not available, we will be forced to limit our business activities, which will have a material adverse effect on our results of operations and financial condition.

As a result of the above factors, our independent registered public accounting firm has indicated in their audit opinion, contained in our financial statements included in this annual report on Form 10-K, that they have serious doubts about our ability to continue as a going concern. The financial statements have been prepared assuming the Company will continue as a going concern.

### ***2017 Firm Commitment Public Offering***

On January 13, 2017, the Company announced the pricing of a firm commitment underwritten public offering of 1,750,000 Units at an offering price of \$2.25 per Unit, with each Unit consisting of one share of the Company's common stock and 0.2 of a Series D Warrant, with each whole Series D Warrant purchasing one share of our common stock at an exercise price \$2.25 per whole share. The shares of common stock and the Series D Warrants were immediately separable and were issued separately. Gross proceeds to the Company from the offering was approximately \$3,937,500 before deducting underwriting discounts and commissions and other estimated offering expenses payable by the Company. The Company has granted the underwriter a 45-day option to purchase an additional (i) up to 175,000 additional shares of common stock at the public offering price per unit less the price per warrant included in the unit and less the underwriting discount and/or (ii) additional warrants to purchase up to 35,000 additional shares of common stock at a purchase price of \$0.01 per warrant to cover over-allotments, if any. The offering closed on January 19, 2017. The underwriter exercised this option, and on February 22, 2017, the Company received net proceeds of approximately \$358,312.

The Company's stockholders' equity now exceeds \$2,500,000. On February 15, 2017, the Company received confirmation from NASDAQ that the Company now exceeds all applicable requirements for continued listing and is in compliance.

### ***Proposed Merger Transaction with CytoBioscience, Inc.***

On July 21, 2017, we entered into a letter of intent with CytoBioscience, Inc., pursuant to which our wholly owned subsidiary would merge with and into CytoBioscience. After such merger, CytoBioscience would be our wholly owned subsidiary. CytoBioscience creates and manufactures devices used in human cell research focused on new therapeutic drug development and has a well-known scientific and technical staff, collaborative partnerships with leading pharmaceutical companies and strategic alliances with key groups and academic institutions. In consideration of the merger, we would issue to CytoBioscience's stockholders (i) shares of our common stock equal to 19.8% of our outstanding shares at the time of the merger (less the amount of our shares that are subject to option agreements with employees of CytoBioscience issued or assumed by us at the time of the merger), (ii) shares of Class C Preferred Stock, (iii) shares of Class D Preferred Stock; and (iv) shares of Class E Preferred Stock. The Class C, Class D and Class E Preferred Stock issued in the merger will be non-convertible, non-voting shares (subject to limited, customary protective provisions), and the Class C and Class D Preferred Stock will have a liquidation preference of \$23.7 million and \$1.2 million respectively. The Preferred Stock will be subject to such other rights and preferences agreed upon by us and CytoBioscience. The parties intend to consummate the merger prior to September 30, 2017. The letter of intent contemplates that our Board of Directors will continue to consist of seven directors, and CytoBioscience will have the right to designate two persons to our Board of Directors, and James Garvin, Ph.D., will become our president. Our officers will continue to remain in the same offices after the closing of the merger.

Completion of the merger is subject to execution of a definitive merger agreement and certain conditions to closing, including the receipt of all approvals and consents of governmental bodies, lenders, lessors and third parties, no material adverse changes in the business of CytoBioscience prior to the closing, no pending or threatened litigation regarding the merger, appropriate employment and inducement agreements are executed with employees of CytoBioscience, conversion of all debt and warrants of CytoBioscience into the right to receive the merger consideration, approval by the stockholders of CytoBioscience of the merger, and other customary conditions. In July 2017, we advanced \$300,000 to CytoBioscience and received a promissory note from CytoBioscience payable on December 31, 2017. In August 2017, we advanced \$200,000 to CytoBioscience and received a promissory note from CytoBioscience payable on December 31, 2017. We anticipate that we may advance additional funds to CytoBioscience on similar terms before the closing of the merger transaction.

## **Inflation**

We do not believe that inflation has had a material impact on our business and operating results during the periods presented.

## **Off-Balance Sheet Arrangements**

We have not engaged in any off-balance sheet activities as defined in Item 303(a)(4) of Regulation S-K.

## **Critical Accounting Policies and Estimates and Recent Accounting Developments**

The discussion and analysis of our financial condition and results of operations are based upon our audited Financial Statements, which have been prepared in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”). The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of our financial statements, the reported amounts of revenues and expenses during the reporting periods presented, as well as our disclosures of contingent assets and liabilities. On an on-going basis, we evaluate our estimates and assumptions, including, but not limited to, fair value of stock-based compensation, fair value of acquired intangible assets and goodwill, useful lives of intangible assets and property and equipment, income taxes, and contingencies and litigation.

We base our estimates and assumptions on our historical experience. We also used any other pertinent information available to us at the time that these estimates and assumptions are made. We believe that these estimates and assumptions are reasonable under the circumstances and form the basis for our making judgments about the carrying values of our assets and liabilities that are not readily apparent from other sources. Actual results and outcomes could differ from our estimates.

Our significant accounting policies are described in “Note 1 – Summary of Significant Accounting Policies,” in Notes to Financial Statements of this Quarterly Report on Form 10-Q. We believe that the following discussion addresses our critical accounting policies and reflects those areas that require more significant judgments, and use of estimates and assumptions in the preparation of our Financial Statements.

**Revenue Recognition.** We recognize revenue in accordance with the SEC’s Staff Accounting Bulletin Topic 13 Revenue Recognition and ASC 605 – Revenue Recognition.

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable and collectability is probable. Delivery is considered to have occurred upon either shipment of the product or arrival at its destination based on the shipping terms of the transaction. Our standard terms specify that shipment is FOB Skyline and we will, therefore, recognize revenue upon shipment in most cases. This revenue recognition policy applies to shipments of our STREAMWAY SYSTEM units as well as shipments of cleaning solution and filters. When these conditions are satisfied, we recognize gross product revenue, which is the price we charge generally to our customers for a particular product. Under our standard terms and conditions, there is no provision for installation or acceptance of the product to take place prior to the obligation of the customer. The customer’s right of return is limited only to our standard one-year warranty, whereby we replace or repair, at our option. We believe it would be rare that the STREAMWAY SYSTEM unit or significant quantities of cleaning solution or filters may be returned. Additionally, since we buy both the STREAMWAY SYSTEM units, cleaning solution, and filters from “turnkey” suppliers, we would have the right to replacements from the suppliers if this situation should occur.

**Stock-Based Compensation.** Effective January 1, 2006, we adopted ASC 718- Compensation-Stock Compensation (“ASC 718”). Under ASC 718 stock-based employee compensation cost is recognized using the fair value based method for all new awards granted after January 1, 2006 and unvested awards outstanding at January 1, 2006. Compensation costs for unvested stock options and non-vested awards that were outstanding at January 1, 2006, are being recognized over the requisite service period based on the grant-date fair value of those options and awards, using a straight-line method. We elected the modified-prospective method in adopting ASC 718 under which prior periods are not retroactively restated.

ASC 718 requires companies to estimate the fair value of stock-based payment awards on the date of grant using an option-pricing model. We use the Black-Scholes option-pricing model which requires the input of significant assumptions including an estimate of the average period of time employees and directors will retain vested stock options before exercising them, the estimated volatility of our common stock price over the expected term, the number of options that will ultimately be forfeited before completing vesting requirements and the risk-free interest rate.



Because we do not have significant historical trading data on our common stock we relied upon trading data from a composite of 10 medical companies traded on major exchanges and 15 medical companies quoted by the OTC Bulletin Board to help us arrive at expectations as to volatility of our own stock when public trading commences. In 2013 the Company experienced significant exercises of options and warrants. The options raised \$6,500 in capital. Warrants exercised for cash produced \$1,330,000 of capital. In the case of options and warrants issued to consultants and investors we used the legal term of the option/warrant as the estimated term unless there was a compelling reason to use a shorter term. The measurement date for employee and non-employee options and warrants is the grant date of the option or warrant. The vesting period for options that contain service conditions is based upon management's best estimate as to when the applicable service conditions will be achieved. Changes in the assumptions can materially affect the estimate of fair value of stock-based compensation and, consequently, the related expense recognized. The assumptions we use in calculating the fair value of stock-based payment awards represent our best estimates, which involve inherent uncertainties and the application of management's judgment. As a result, if factors change and we use different assumptions, our equity-based compensation expense could be materially different in the future. See "Note 2 – Stockholders' Equity, Stock Options and Warrants" in Notes to Financial Statements of this Quarterly Report on Form 10-Q for additional information.

When an option or warrant is granted in place of cash compensation for services, we deem the value of the service rendered to be the value of the option or warrant. In most cases, however, an option or warrant is granted in addition to other forms of compensation and its separate value is difficult to determine without utilizing an option pricing model. For that reason we also use the Black-Scholes option-pricing model to value options and warrants granted to non-employees, which requires the input of significant assumptions including an estimate of the average period that investors or consultants will retain vested stock options and warrants before exercising them, the estimated volatility of our common stock price over the expected term, the number of options and warrants that will ultimately be forfeited before completing vesting requirements and the risk-free interest rate. Changes in the assumptions can materially affect the estimate of fair value of stock-based compensation and, consequently, the related expense recognizes that. Since we have no trading history in our common stock and no first-hand experience with how our investors and consultants have acted in similar circumstances, the assumptions we use in calculating the fair value of stock-based payment awards represent our best estimates, which involve inherent uncertainties and the application of management's judgment. As a result, if factors change and we use different assumptions, our equity-based consulting and interest expense could be materially different in the future.

Since our common stock has no significant public trading history we were required to take an alternative approach to estimating future volatility and the future results could vary significantly from our estimates. We compiled historical volatilities over a period of 2 to 7 years of 10 small-cap medical companies traded on major exchanges and 15 medical companies in the middle of the market cap size range on the OTC Bulletin Board and combined the results using a weighted average approach. In the case of standard options to employees we determined the expected life to be the midpoint between the vesting term and the legal term. In the case of options or warrants granted to non-employees, we estimated the life to be the legal term unless there was a compelling reason to make it shorter.

#### **Valuation of Intangible Assets**

We review identifiable intangible assets for impairment in accordance with ASC 350- *Intangibles – Goodwill and Other*, whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Our intangible assets are currently solely the costs of obtaining trademarks and patents. Events or changes in circumstances that indicate the carrying amount may not be recoverable include, but are not limited to, a significant change in the medical device marketplace and a significant adverse change in the business climate in which we operate. If such events or changes in circumstances are present, the undiscounted cash flows method is used to determine whether the intangible asset is impaired. Cash flows would include the estimated terminal value of the asset and exclude any interest charges. If the carrying value of the asset exceeds the undiscounted cash flows over the estimated remaining life of the asset, the asset is considered impaired, and the impairment is measured by reducing the carrying value of the asset to its fair value using the discounted cash flows method. The discount rate utilized is based on management's best estimate of the related risks and return at the time the impairment assessment is made. The balance represented intellectual property in the form of patents for our original STREAMWAY product. The Company's enhanced STREAMWAY product has a new patent pending, see "Patents and Intellectual Property."

## Recent Accounting Developments

See Note 1 - "Summary of Significant Accounting Policies" to the Condensed Financial Statements of this Quarterly Report on Form 10-Q for a discussion of recent accounting developments.

## Information Regarding Forward-Looking Statements

This Form 10-Q contains "forward-looking statements" that indicate certain risks and uncertainties related to the Company, many of which are beyond the Company's control. The Company's actual results could differ materially and adversely from those anticipated in such forward-looking statements as a result of certain factors, including those set forth below and elsewhere in this report. Important factors that may cause actual results to differ from projections include:

- Current negative operating cash flows;
- The terms of any further financing, which may be highly dilutive and may include onerous terms;
- Risk that we will be unable to protect our intellectual property or claims that we are infringing on others' intellectual property;
- The impact of competition, the obtaining and maintenance of any necessary regulatory clearances applicable to applications of the Company's technology;
- Inability to raise sufficient additional capital to operate our business;
- Risk that we never become profitable if our product is not accepted by potential customers;
- Possible impact of government regulation and scrutiny;
- Unexpected costs and operating deficits, and lower than expected sales and revenues, if any;
- Adverse economic conditions;
- Adverse results of any legal proceedings;
- The volatility of our operating results and financial condition;
- Inability to attract or retain qualified senior management personnel, including sales and marketing personnel;
- The potential delisting of our common stock from The Nasdaq Capital Market if we do not continue to meet applicable listing standards; and
- Other specific risks that may be alluded to in this report.

All statements other than statements of historical facts, included in this report regarding the Company's growth strategy, future operations, financial position, estimated revenue or losses, projected costs, prospects and plans and objectives of management are forward-looking statements. When used in this report, the words "will", "may", "believe", "anticipate", "intend", "estimate", "expect", "project", "plan" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. All forward-looking statements speak only as of the date of this report. The Company does not undertake any obligation to update any forward-looking statements or other information contained herein. Potential investors should not place undue reliance on these forward-looking statements. Although Skyline believes that its plans, intentions and expectations reflected in or suggested by the forward-looking statements in this report are reasonable the Company cannot assure potential investors that these plans, intentions or expectations will be achieved. The Company discloses important factors that could cause the Company's actual results to differ materially from its expectations in the "Risk Factors" section and elsewhere our Annual Report on Form 10-K for the year ended December 31, 2016. The Company also included updated risk factors, including risks related to the proposed merger transaction with CytoBioscience, as Exhibit 99.3 to its Current Report on Form 8-K filed on August 1, 2017. These cautionary statements qualify all forward-looking statements attributable to the Company or persons acting on its behalf.

Information regarding market and industry statistics contained in this report are included based on information available to the Company that it believes is accurate. It is generally based on academic and other publications that are not produced for purposes of securities offerings or economic analysis. The Company has not reviewed or included data from all sources, and the Company cannot assure potential investors of the accuracy or completeness of the data included in this report. Forecasts and other forward-looking information obtained from these sources are subject to the same qualifications and the additional uncertainties accompanying any estimates of future market size, revenue and market acceptance of products and services. The Company has no obligation to update forward-looking information to reflect actual results or changes in assumptions or other factors that could affect those statements.

### **ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

Not required.

### **ITEM 4. Controls and Procedures**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the rules promulgated under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission.

With the participation of the Chief Executive Officer and the Chief Financial Officer, management has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2017.

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during the three months ended June 30, 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. Legal Proceedings**

None

### **ITEM 1A. Risk Factors**

In addition to the other information set forth in the Quarterly Report on Form 10-Q, the reader should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016. The Company also included updated risk factors, including risks related to the proposed merger transaction with CytoBioscience, as Exhibit 99.3 to its Current Report on Form 8-K filed on August 1, 2017. The reader should also carefully consider these risk factors.

### **ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**ITEM 3. Defaults Upon Senior Securities**

None.

**ITEM 4. Mine Safety Disclosures**

Not applicable.

**ITEM 5. Other Information**

In July 2017, an attorney sent demand letters to our Board of Directors purporting to represent stockholders of the Company. The letter claims that Skyline failed to obtain valid shareholder approval at its July 2016 annual meeting for an amendment to the 2012 Stock Incentive Plan that increased the plan's share reserve. As a result, the lawyer claims that Skyline stock option grants since July 2016 have not been properly approved, constituting a breach of the directors' fiduciary duties. The attorney's claim relates to the fact that the sum of the abstentions and "no" votes on the proposal for the plan amendment exceeded the number of "yes" votes. The Company is investigating the claims in the letter, including the possibility that the granting of stock options in excess of the properly approved plan limitation may have constituted a violation of applicable NASDAQ listing rules. The Company is also investigating possible corrective action. The Company does not believe that this legal matter will have a material adverse effect on its financial condition or results of operation. However, matters involving litigation are inherently uncertain. Further, there is no assurance that NASDAQ will not assert that there has been a violation of its listing standards, which would result in NASDAQ providing us with a deficiency letter and would require that we present NASDAQ with a plan of compliance to correct the asserted violation. If we fail to correct any such asserted violation, our common stock may be de-listed from the NASDAQ Stock Market.

**Item 6. Exhibits**

See the attached exhibit index.

**SIGNATURES:**

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

**SKYLINE MEDICAL INC.**

Date: August 14, 2017

By: /s/ Carl Schwartz  
Carl Schwartz  
Chief Executive Officer

Date: August 14, 2017

By: /s/ Bob Myers  
Bob Myers  
Chief Financial Officer

## EXHIBIT INDEX

**SKYLINE MEDICAL INC.**  
Form 10-Q

The quarterly period ended June 30, 2017

Exhibit No.	Description
2.1	Agreement and Plan of Merger with Skyline Cyto Acquisition, Inc., and Alan Dean as Stockholder Representative dated August 9, 2017 (incorporated by reference to Form 8-K filed August 11, 2017)
<a href="#">10.1* †</a>	<a href="#">Form of Stock Option Agreement for Executive Officers</a>
<a href="#">10.2* †</a>	<a href="#">Form of Stock Option Agreement for Directors</a>
<a href="#">31.1*</a>	<a href="#">Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
<a href="#">31.2*</a>	<a href="#">Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
<a href="#">32.1*</a>	<a href="#">Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS*	XBRL Instance Document**
101.SCH*	XBRL Extension Schema Document**
101.CAL*	XBRL Extension Calculation Linkbase Document**
101.DEF*	XBRL Extension Definition Linkbase Document**
101.LAB*	XBRL Extension Labels Linkbase Document**
101.PRE*	XBRL Extension Presentation Linkbase Document**

† Compensatory plan or arrangement.

\* Filed herewith.

\*\* In accordance with Rule 406T of Regulation S-T, this information is deemed not “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

**SKYLINE MEDICAL INC.  
NON-QUALIFIED STOCK OPTION AGREEMENT**

This STOCK OPTION AGREEMENT (the "Agreement") is made and entered into effective as of the 22<sup>nd</sup> day of June, 2017, between Skyline Medical Inc., a Delaware corporation (the "Company") and \_\_\_\_\_ ("Employee").

**BACKGROUND**

A. Employee has either been hired to serve as an employee to the Company or the Company desires to induce Employee to continue to serve the Company as an employee.

B. The Company has adopted the 2012 Stock Incentive Plan (the "Plan"), pursuant to which shares of common stock of the Company have been reserved for issuance under the Plan.

NOW, THEREFORE, the parties hereto agree as follows:

1. Grant of Option; Purchase Price. Subject to the terms and conditions herein set forth, the Company hereby irrevocably grants from the Plan to Employee the right and option, hereinafter called the "Option", to purchase all or any part of an aggregate of the number of shares of common stock, \$0.01 par value, of the Company (the "Shares") set forth at the end of this Agreement after "Number of Shares" at the price per Share set forth at the end of this Agreement after "Purchase Price."

2. Exercise and Vesting of Option. The Option shall be exercisable only to the extent that all, or any portion thereof, has vested in Employee. Except as provided herein in Sections 5 and 6 hereof, the Options shall vest immediately as to \_\_\_\_\_ Shares, with the remaining \_\_\_\_\_ Shares vesting quarterly in eight (8) cumulative installments starting on January 1, 2018 and ending on October 1, 2019 (each such date is hereinafter referred to singularly as a "Vesting Date" and collectively as "Vesting Dates"), so long as Employee remains an employee of the Company.

3. Termination of Employment. Except as provided in Section 5 below, in the event that Employee ceases to be employed by the Company, for any reason or no reason, with or without cause, prior to any Vesting Date, that part of the Option scheduled to vest on such Vesting Date, and all parts of the Option scheduled to vest in the future, shall not vest and all of Employee's rights to and under such non-vested parts of the Option shall terminate.

4. Term of Option. To the extent vested, and except as otherwise provided in this Agreement, the Option shall be exercisable for ten (10) years from the date of this Agreement; provided, however, that, except as provided in Section 5 below, in the event Employee ceases to be employed by the Company, for any reason or no reason, Employee or his/her legal representative shall have three (3) months from the date of such termination of his/her position as an employee to exercise any part of the Option vested pursuant to Section 3 of this Agreement. Upon the expiration of such three (3) month period, except as provided in Section 5, or, if earlier, upon the expiration date of the Option as set forth above, the Option shall terminate and become null and void.

5. Termination of Employment. For certain definitions in this Section 5, reference is made to the Employment Agreement dated August 11, 2012 between the Employee and the Company (as it may be amended or restated from time to time, the "Employment Agreement").

(a) In the event of a termination of employment of Employee by the Company without Cause (as defined in the Employment Agreement) or by Employee for Good Reason (as defined in the Employment Agreement), (i) any unvested portion of the Option shall immediately vest, and (ii) the Option shall be exercisable until the earlier of (A) five (5) years after the date of such termination or (B) the expiration of the Option.

(b) In the event of Employee's voluntary termination of his employment or death on or after December 31, 2018 (which will be considered a retirement), (i) the entire Option shall immediately vest in full to the extent not already vested and (ii) the Option shall be exercisable by Employee or his estate or legal representative through the full remaining term of the Option.

(c) In the event of Employee's death before December 31, 2018, Employee's estate or his legal representative, as the case may be, may exercise the Option to the extent of the number of Shares which were vested at the time of his death, but such right shall expire unless exercised by Employee's estate or legal representative within the earlier of (i) twelve (12) months after the death of Employee, or (ii) the expiration of the Option.

6. Change in Control. "Change in Control" has the meaning provided in the Plan. Notwithstanding anything to the contrary contained herein, in the event of a Change in Control of the Company, the Option shall become fully vested upon the effective date of such event, and shall remain exercisable for the remainder of the term of the Option.

7. Method of Exercising Option. Subject to the terms and conditions of this Agreement and the Plan, the Option may be exercised, in whole or in part, by written notice to the Company. Such notice shall state the election to exercise the Option, the number of Shares in respect of which it is being exercised, the method of exercise, and shall be signed by the person or persons exercising the Option. The Employee may exercise the Option by (i) paying to the Company in cash the full exercise price; (ii) arranging for a broker to sell Shares and immediately thereafter pay to the Company the full exercise price; or (iii) delivering Shares previously owned by Employee, the total market value of which equals the full exercise. Applicable tax withholding may be paid by any method permitted under the Plan. Upon proper exercise, the Company shall deliver a certificate or certificates representing such Shares as soon as practicable after the notice shall be received. All Shares that shall be purchased upon the exercise of the Option as provided herein shall be fully paid and non-assessable.

8. Rights of Option Holder. Employee, as holder of the Option, shall not have any of the rights of a shareholder with respect to the Shares covered by the Option except to the extent that one or more certificates for such Shares shall be delivered to him or her upon the due exercise of all or any part of the Option.

9. Limitations on Transferability. The Option shall not be transferred, pledged or assigned except, in the event Employee's death, by will or the laws of descent and distribution to the limited extent provided in the Plan, or pursuant to a qualified domestic relations order as defined by the Internal Revenue Code of 1986, as amended (the "Code") or Title I of the Employee Retirement Income Security Act, or the rules there under, and the Company shall not be required to recognize any attempted assignment of such rights. Notwithstanding the preceding sentence, the Option may be transferred by Employee to Employee's spouse, children, grandchildren or parents (collectively, the "Family Members"), to trusts for the benefit of Family Members, to partnerships or limited liability companies in which Family Members are the only partners or shareholders, or to entities exempt from federal income taxation pursuant to Section 501(c)(3) of the Code. During Employee's lifetime, the Option may be exercised only by him or her, by his/her guardian or legal representative or by the transferees permitted by the preceding sentence.

10. No Continued Employment or Right to Corporate Assets. Nothing contained in this Agreement shall be deemed to grant Employee any right to continue in the employ of the Company for any period of time or to any right to continue his/her present or any other rate of compensation, nor shall this Agreement be construed as giving Employee, Employee's beneficiaries or any other person any equity or interests of any kind in the assets of the Company or creating a trust of any kind or a fiduciary relationship of any kind between the Company and any such person.

11. Securities Law Matters. Employee acknowledges that the Shares to be received by him or her upon exercise of the Option may not have been registered under the Securities Act of 1933 or the Blue Sky laws of any state (collectively, the "Acts"). If such Shares have not been so registered, Employee acknowledges and understands that the Company is under no obligation to register, under the Acts, the Shares received by him or her or to assist him or her in complying with any exemption from such registration if he or she should at a later date wish to dispose of the Shares. Employee acknowledges that if not then registered under the Acts, the Shares shall bear a legend restricting the transferability thereof, such legend to be substantially in the following form:



“The shares represented by this certificate have not been registered or qualified under federal or state securities laws. The shares may not be offered for sale, sold, pledged or otherwise disposed of unless so registered or qualified, unless an exemption exists or unless such disposition is not subject to the federal or state securities laws, and the Company may require that the availability or any exemption or the inapplicability of such securities laws be established by an opinion of counsel, which opinion of counsel shall be reasonably satisfactory to the Company.”

12. Employee Representations. Employee hereby represents and warrants that Employee has reviewed with his/her own tax advisors the federal, state, and local tax consequences of the transactions contemplated by this Agreement. Employee is relying solely on such advisors and not on any statements or representation of the Company or any of its agents. Employee understands that he or she will be solely responsible for any tax liability that may result to him or her as a result of the transactions contemplated by this Agreement. The Option, if exercised, will be exercised for investment and not with a view to the sale or distribution of the Shares to be received upon exercise thereof.

13. General.

(a) The Option is granted pursuant to the Plan and is governed by the terms thereof. In the event of any conflict between the terms of this Agreement and the terms of the Plan, the terms of the Plan shall control. The Company shall at all times during the term of the Option reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of this Agreement.

(b) Nothing herein expressed or implied is intended or shall be construed as conferring upon or giving to any person, firm, or corporation other than the parties hereto, any rights or benefits under or by reason of this Agreement.

(c) Each party hereto agrees to execute such further documents as may be necessary or desirable to affect the purposes of this Agreement.

(d) This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same agreement.

(e) This Agreement, in its interpretation and effect, shall be governed by the laws of the State of Delaware applicable to contracts executed and to be performed therein.

*[Signature page follows]*

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first written above.

**NUMBER OF SHARES:**

\_\_\_\_\_

**SKYLINE MEDICAL INC.**

By  
Its

\_\_\_\_\_

\_\_\_\_\_

**PURCHASE PRICE:**

\$ \_\_\_ per share

**EMPLOYEE:**

\_\_\_\_\_

**DATE:**

\_\_\_\_\_

**SKYLINE MEDICAL INC.**  
**NON-QUALIFIED STOCK OPTION AGREEMENT**

This STOCK OPTION AGREEMENT (the "Agreement") is made and entered into effective as of the \_\_\_ day of \_\_\_\_\_, 20\_\_\_, between Skyline Medical Inc., a Delaware corporation (the "Company") and \_\_\_\_\_ ("Director").

**BACKGROUND**

A. Director is serving as a member of the board of directors of the Company (the "Board") and the Company desires to reward Director for his/her services to the Company as a member of the Board [for the quarter ended \_\_\_\_\_, 20\_\_].

B. The Company has adopted the Amended and Restated 2012 Stock Incentive Plan (as amended, the "Plan"), pursuant to which shares of common stock of the Company have been reserved for issuance under the Plan.

NOW, THEREFORE, the parties hereto agree as follows:

1. Grant of Option; Purchase Price. Subject to the terms and conditions herein set forth, the Company hereby irrevocably grants from the Plan to Director the right and option, hereinafter called the "Option," to purchase all or any part of an aggregate of the number of shares of common stock, \$0.01 par value, of the Company (the "Shares") set forth at the end of this Agreement after "Number of Shares" at the price per Share set forth at the end of this Agreement after "Purchase Price."

2. Exercise and Vesting of Option. The Option shall vest immediately and shall be exercisable for the entire term of the Option.

3. Term of Option. The Option shall be exercisable for ten (10) years from the date of this Agreement. In the event that Director ceases to be a director of the Company, for any reason or no reason, the Director retains all of Director's rights to and under the Option.

4. Death of Director. In the event of Director's death, the person designated in Director's will, or in the absence of such designation, Director's legal representative may, in like manner, exercise the Option.

5. Method of Exercising Option. Subject to the terms and conditions of this Agreement and the Plan, the Option may be exercised by written notice to the Company. Such notice shall state the election to exercise the Option, the number of Shares in respect of which it is being exercised, the method of exercise, and shall be signed by the person or persons exercising the Option. The Director may exercise the Option by (i) paying to the Company in cash the full exercise price; (ii) arranging for a broker to sell Shares and immediately thereafter pay to the Company the full exercise price; (iii) delivering Shares previously owned by Director, the total market value of which equals the full exercise; or (iv) instructing the Company to withhold from the Shares issuable upon exercise of the Option Shares in payment of all or any part of the applicable exercise price. Applicable tax withholding may be paid by any method permitted under the Plan. Upon proper exercise, the Company shall deliver a certificate or certificates representing such Shares as soon as practicable after the notice shall be received. All Shares that shall be purchased upon the exercise of the Option as provided herein shall be fully paid and non-assessable.

6. Rights of Option Holder. Director, as holder of the Option, shall not have any of the rights of a shareholder with respect to the Shares covered by the Option except to the extent that one or more certificates for such Shares shall be delivered to him or her upon the due exercise of all or any part of the Option.

7. Limitations on Transferability. The Option shall not be transferred, pledged or assigned except, in the event Director's death, by will or the laws of descent and distribution to the limited extent provided in the Plan, or pursuant to a qualified domestic relations order as defined by the Internal Revenue Code of 1986, as amended (the "Code") or Title I of the Employee Retirement Income Security Act, or the rules there under, and the Company shall not be required to recognize any attempted assignment of such rights. Notwithstanding the preceding sentence, the Option may be transferred by Director to Director's spouse, children, grandchildren or parents (collectively, the "Family Members"), to trusts for the benefit of Family Members, to partnerships or limited liability companies in which Family Members are the only partners or shareholders, or to entities exempt from federal income taxation pursuant to Section 501(c)(3) of the Code. During Director's lifetime, the Option may be exercised only by him or her, by his/her guardian or legal representative or by the transferees permitted by the preceding sentence.

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8. No Continued Membership or Right to Corporate Assets. Nothing contained in this Agreement shall be deemed to grant Director any right to continue as a member of the Board for any period of time or to any right to continue his/her present or any other rate of compensation, nor shall this Agreement be construed as giving Director, Director's beneficiaries or any other person any equity or interests of any kind in the assets of the Company or creating a trust of any kind or a fiduciary relationship of any kind between the Company and any such person.

9. Securities Law Matters. Director acknowledges that the Shares to be received by him or her upon exercise of the Option may not have been registered under the Securities Act of 1933 or the Blue Sky laws of any state (collectively, the "Acts"). If such Shares have not been so registered, Director acknowledges and understands that the Company is under no obligation to register, under the Acts, the Shares received by him or her or to assist him or her in complying with any exemption from such registration if he or she should at a later date wish to dispose of the Shares. Director acknowledges that if not then registered under the Acts, the Shares shall bear a legend restricting the transferability thereof, such legend to be substantially in the following form:

"The shares represented by this certificate have not been registered or qualified under federal or state securities laws. The shares may not be offered for sale, sold, pledged or otherwise disposed of unless so registered or qualified, unless an exemption exists or unless such disposition is not subject to the federal or state securities laws, and the Company may require that the availability or any exemption or the inapplicability of such securities laws be established by an opinion of counsel, which opinion of counsel shall be reasonably satisfactory to the Company."

10. Director Representations. Director hereby represents and warrants that Director has reviewed with his/her own tax advisors the federal, state, and local tax consequences of the transactions contemplated by this Agreement. Director is relying solely on such advisors and not on any statements or representation of the Company or any of its agents. Director understands that he or she will be solely responsible for any tax liability that may result to him or her as a result of the transactions contemplated by this Agreement. The Option, if exercised, will be exercised for investment and not with a view to the sale or distribution of the Shares to be received upon exercise thereof.

11. General.

(a) The Option is granted pursuant to the Plan and is governed by the terms thereof. In the event of any conflict between the terms of this Agreement and the terms of the Plan, the terms of the Plan shall control. The Company shall at all times during the term of the Option reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of this Agreement.

(b) Nothing herein expressed or implied is intended or shall be construed as conferring upon or giving to any person, firm, or corporation other than the parties hereto, any rights or benefits under or by reason of this Agreement.

(c) Each party hereto agrees to execute such further documents as may be necessary or desirable to effect the purposes of this Agreement.

(d) This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same agreement.

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(e) This Agreement, in its interpretation and effect, shall be governed by the laws of the State of Minnesota applicable to contracts executed and to be performed therein.

*[Signature page follows]*

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*[Signature page to Non-Qualified Stock Option Agreement]*

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first written above.

**NUMBER OF SHARES:**

\_\_\_\_\_

**SKYLINE MEDICAL INC.**

By  
Its

\_\_\_\_\_  
CFO

**PURCHASE PRICE:**

\$\_\_\_ per share

**DIRECTOR:**

\_\_\_\_\_

**DATE:**

\_\_\_\_\_

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**CERTIFICATION  
PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Carl Schwartz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Skyline Medical Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2017

/s/ Carl Schwartz

Carl Schwartz

Chief Executive Officer

**CERTIFICATION  
PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Bob Myers, certify that:

1. I have reviewed the quarterly report on Form 10-Q of Skyline Medical Inc.;
2. Based on my knowledge, this report does not contain any untrue statements of a material fact or omit to state a material fact necessary to make the statements in light of the circumstances under which some statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report (that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting); and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date August 14, 2017

/s/ Bob Myers

Bob Myers

Chief Financial Officer



**CERTIFICATION**  
**PURSUANT TO 18 U.S.C. SECTION 1350,**  
**AS ADOPTED PURSUANT TO SECTION 906**  
**OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Skyline Medical Inc. (the "Company") for the quarter ended June 30, 2017 as filed with the Securities and Exchange Commission (the "Report"), I, Carl Schwartz, Chief Executive Officer (Principal Executive Officer) and, I, Bob Myers, Chief Financial Officer (Principal Financial Officer) of the Company, hereby certify as of the date hereof, solely for purposes of § 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. § 1350, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

Date: August 14, 2017

/s/ Carl Schwartz  
\_\_\_\_\_  
Carl Schwartz  
Chief Executive Officer

Date: August 14, 2017

/s/ Bob Myers  
\_\_\_\_\_  
Bob Myers  
Chief Financial Officer