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, 2016

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	33-1007393
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2915 Commers Drive, Suite 900	Eagan, Minnesota 55121
(Address of principal executive offices)	(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, anon-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting 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 ☒

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 3, 2016, the registrant had 81,804,903 shares of common stock, par value $.01 per share, outstanding.

SKYLINE MEDICAL INC.

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PART 1. FINANCIAL INFORMATION
Item 1. Condensed Financial Statements

SKYLINE MEDICAL INC.
CONDENSED BALANCE SHEETS
(Unaudited)

	June 30, 2016	December 31, 2015
Current Assets:		
Cash and Cash Equivalents	$ 583,044	$ 4,856,232
Certificates of Deposit	701,243	-
Marketable Securities (Note 12)	855,878	-
Accounts Receivable	23,566	38,283
Inventories	292,160	231,740
Prepaid Expense and other assets	221,187	271,579
Total Current Assets	2,677,078	5,397,834
Fixed Assets, net	121,469	139,598
Intangibles, net	96,130	94,987
Total Assets	$ 2,894,677	$ 5,632,419
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	$ 750,473	$ 650,413
Accrued Expenses	798,921	864,295
Deferred Revenue	5,000	5,000
Total Current Liabilities	1,554,394	1,519,708
Accrued Expenses	555,104	-
Total Liabilities	2,109,498	1,519,708
Commitments and Contingencies	-	-
Stockholders' Equity:		
Series B Convertible Preferred Stock, $.01 par value, 20,000,000 authorized, 80,624 and 1,895,010 outstanding	806	18,950
Common Stock, $.01 par value, 100,000,000 authorized, 77,698,393 and 5,206,428 outstanding	776,983	52,063
Additional paid-in capital	45,231,599	44,534,135
Accumulated Deficit	(45,230,087)	(40,492,437)
Accumulated Other Comprehensive Income	5,878	-
Total Stockholders' Equity	785,179	4,112,711
Total Liabilities and Stockholders' Equity	$ 2,894,677	$ 5,632,419

See Notes to Condensed Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
Revenue	$ 85,422	$ 234,012	$ 182,326	$ 385,286
Cost of goods sold	36,766	83,566	122,649	179,534
Gross Margin	48,656	150,446	59,677	205,752
General and administrative expense	2,262,481	856,219	3,951,057	728,424
Operations expense	244,840	151,313	635,206	172,630
Sales and marketing expense	102,616	139,026	211,064	372,983
Interest expense	-	189,215	-	342,837
Total expense	2,609,937	1,335,773	4,797,327	1,616,874
Net loss available to common shareholders	(2,561,281)	(1,185,327)	(4,737,650)	(1,411,122)
Other comprehensive income				
Unrealized gain from marketable securities	3,028	-	5,878	-
Comprehensive loss	$ (2,558,253)	$ (1,185,327)	$ (4,731,772)	$ (1,411,122)
Loss per common share - basic and diluted	$ (0.04)	$ (0.36)	$ (0.11)	$ (0.44)
Weighted average shares used in computation - basic and diluted	67,380,076	3,263,356	42,738,140	3,182,706

See Notes to Condensed Financial Statements

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

	Preferred Stock	Common Stock Shares	Common Stock Amount	Paid-in Capital	Deficit	Accumulated Other Comprehensive Income	Total
Balance at 12/31/2014	$ 206	3,092,766	$ 30,927	$30,093,745	$(35,641,105)	-	$ (5,516,227)
Shares issued to 16 shareholders of Series A Convertible Preferred Stock Adjustment as converted to common shares at $9.75 per share		3,122	31	(31)	-		-
Reduction in escrow account per settlement agreement		(8,889)	(89)	(6,578)			(6,667)
Shares issued for a note conversion at $2.90 per share		3,447	34	9,966			10,000
Shares issued for a note conversion at $2.96 per share		6,762	68	19,932			20,000
Shares issued for a note conversion at $2.91 per share		10,313	103	29,897			30,000
Shares issued for a note conversion at $2.77 per share		12,098	120	33,358			33,478
Shares issued for a note conversion at $2.25 per share		15,552	156	34,844			35,000
Shares issued to 16 shareholders of Series A Convertible Preferred Stock Dividends as converted to common shares at $9.75 per share		3,121	31	30,369	(30,401)		(1)
Shares issued for a note conversion at $2.00 per share		35,000	350	69,650			70,000
Shares issued for a note conversion at $2.27283 per share		87,997	880	199,120			200,000
Shares issued for a note conversion at $2.0179 per share		14,867	149	29,851			30,000
Shares issued for a note conversion at $1.92417 per share		12,993	130	24,870			25,000
Shares issued for a note conversion at $1.8578 per share		16,148	162	29,838			30,000
Shares issued to 16 shareholders of Series A Convertible Preferred Stock Dividends as converted to common shares at $9.75 per share		3,121	31	30,371	(30,401)		1
Vesting Expense			-	871,877			871,877
Shares issued in public offering; net	16,667	1,666,667	16,667	13,027,546			13,060,880
Preferred stock conversion	2,077	228,343	2,283	(4,360)			(0)
Series A warrant exercise		3,000	30	9,870			9,900
Net loss			-	-	(4,790,530)		(4,790,530)
Balance @ 12/31/2015	$ 18,950	5,206,428	$ 52,063	$44,534,135	$(40,492,437)	-	$ 4,112,711
Shares issued for two options exercised at $2.63 per share		32,796	328	85,925			86,253
Shares issued for preferred stock conversion into common stock per the break-up of the Unit from the 2015 public offering	(18,144)	1,658,527	16,585	1,559			-
Shares issued for cashless Series A warrant exercises per the break-up of the Unit from the 2015 public offering		57,903,236	579,032				579,032
Shares issued for cashless Series B warrant exercises per the tender offer exchange		8,997,542	89,975				89,975
Shares issued at $0.15 per share, to an investment banker per contractual agreement		3,399,864	33,999	475,981			509,980
Shares issued at $0.18 per share, to former CEO per severance agreement		500,000	5,000	85,351			90,351
Vesting Expense				48,649			48,649
Unrealized gain from marketable securities						5,878	5,878
Net loss					(4,737,650)		(4,737,650)
Balance @ 6/30/2016	$ 806	77,698,393	$ 776,983	$45,231,599	$(45,230,087)	$ 5,878	$ 785,179

See Notes to Financial Statements

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

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Cash flow from operating activities:		
Net loss	$ (4,737,650)	$ (1,411,122)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	42,130	39,021
Vested stock options and warrants	48,649	302,981
Equity instruments issued for management and consulting	600,331	(3,333)
Issuance of common stock in cashless warrant exchange	669,007	-
Amortization of debt discount	-	219,097
Penalty on debt provision	-	10,031
Loss on Sales of Equipment	(1,562)	13,102
Changes in assets and liabilities:		
Accounts receivable	14,717	41,694
Inventories	(60,420)	109,699
Prepaid expense and other assets	50,392	(12,576)
Accounts payable	100,060	279,669
Accrued expenses	489,730	193,781
Deferred Revenue	-	3,375
Net cash used in operating activities:	$ (2,784,616)	$ (214,581)
Cash flow from investing activities:		
Purchase of marketable securities	(850,000)	-
Purchase of certificates of deposit	(1,000,000)	
Redemption of certificates of deposit	298,757	
Purchase of fixed assets	(18,729)	-
Purchase of intangibles	(4,853)	(7,700)
Net cash used in investing activities	$ (1,574,825)	$ (7,700)
Cash flow from financing activities:		
Proceeds from long-term and convertible debt	-	250,000
Issuance of common stock	86,253	-
Net cash provided by (used in) financing activities	$ 86,253	$ 250,000
Net increase (decrease) in cash	(4,273,188)	27,719
Cash and cash equivalents at beginning of period	4,856,232	16,384
Cash and cash equivalents at end of period	$ 583,044	$ 44,103
Non cash transactions:		
Common stock issued for accrued interest/bonus	-	-
Common stock issued to satisfy debt	-	483,478

See Notes to Condensed Financial Statements

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, 2016, the registrant had 77,698,393 shares of common stock, par value $.01 per share, outstanding. 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® FMS 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 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, 2016, the Company raised approximately $22,325,091 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 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. The new standard provides a single comprehensive revenue recognition framework for all entities and supersedes 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. We are currently evaluating the impact this guidance may have on our financial statements and related disclosures.

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 for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted. We are currently evaluating the impact this guidance may have on our financial statements.

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 are currently evaluating the impact this guidance may have on our financial statements and related disclosures.

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 for annual and interim reporting periods beginning after December 15, 2015. Early adoption is permitted. The adoption of this ASU is not expected to have an impact on our financial statements.

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. We are currently evaluating the impact this guidance may have on our financial statements.

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. We are currently evaluating the impact this guidance may have on our financial statements and related disclosures.

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 consolidated 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 consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "*Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accountin*g" ("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. We are currently evaluating the timing of our adoption and the impact that the updated standard will have on our consolidated 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 $42,665 and $46,662 in the three and six months ended June 30, 2016 and were $500 and $1,417 in the three and six months ended June 30, 2015.

Research and Development

Research and development costs are charged to operations as incurred. Research and development expenses were $100,234 and $222,395 in the three and six months ended June 30, 2016 and were $58,285 and $120,947 in the three and six months ended June 30, 2015.

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 FMS 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 FMS unit or significant quantities of cleaning solution or filters may be returned. Additionally, since the Company buys the STREAMWAY FMS 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 approximate 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 Certification* (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 as 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 were 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, 2016	December 31, 2015
Finished goods	$ 69,504	$ 30,237
Raw materials	151,108	162,623
Work-In-Process	71,548	38,880
Total	$ 292,160	$ 231,740

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:

	June 30, 2016	**December 31, 2015**
Computers and office equipment	$ 166,025	$ 153,553
Leasehold improvements	25,635	23,874
Manufacturing tooling	101,104	97,288
Demo Equipment	8,962	8,962
Total	301,726	283,677
Less: Accumulated depreciation	180,257	144,079
Total Fixed Assets, Net	$ 121,469	$ 139,598

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.

Intangible Assets

Intangible assets consist of trademarks and patent costs. Amortization expense was $1,878 and $3,710 in the three and six months ended June 30, 2016, and was $1,444 and $2,888 in the three and six months ended June 30, 2015. 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.

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 2012 remain open to examination by federal and state tax authorities.

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 new 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 (PCT) 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 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 as a result of depositing $440,655 of funds in excess of insurance limits in a single bank.

Product Warranty Costs

In the three and six months ending June 30, 2016 the incurred approximately $1,092 and $30,981 in current warranty costs and incurred $17,095 and $27,604 in warranty costs for the three and six months ending June 30, 2015.

Segments

The Company operates in one segment for the sale of its medical device and consumable products. Substantially all of the Company's assets, revenues and expenses for the three and six months ending June 30, 2016 and for 2015 in entirety were located at or derived from operations in the United States. There were no revenue from sales outside of the United States. The Company has recently attained its ISO 13485 certification and is applying to sell our products in Canada.

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 16, 2016. 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 – DEVELOPMENT STAGE OPERATIONS

The Company was formed April 23, 2002. Since inception to August 3, 2016, 81,804,903 shares of common stock have been issued between par value and $125.25. Operations since incorporation have been devoted to raising capital, obtaining financing, development of the Company's product, and administrative services, customer acceptance and sales and marketing strategies.

NOTE 3 – STOCKHOLDERS' DEFICIT, 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 under the plan. 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.

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, as a result 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 1,895,010 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 $4.95 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 according to the following formula, referred to as the “Cashless Exercise.”

Total Shares = (A x 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 June 30, 2016 was $4.301, and the closing bid price of Common Stock as of June 30, 2016, was $0.15. Therefore, an exercise on that date would have resulted in the issuance of 10.00 shares of Common Stock for each Series A Warrant. Approximately 6,077,778 Series A Warrants have been exercised in cashless exercises as of June 30, 2016, resulting in the issuance of 61,060,711 shares of Common Stock. If all of the remaining 27,051 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 $4.301 (the Black-Scholes Value as of June 30, 2016), then a total of an additional approximately 270,510 shares of our common stock would be issued to the holders of such Series A Warrants.

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 expires on August 25, 2018.

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) as of February 29, 2016. 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, shares 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 84,770 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 issued 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 4. 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 April 21, 2016 1,040,373 Series A Warrants were exercised in cashless exercises, resulting in the issuance of 10,454,136 shares of common stock.

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 2014 the Company issued 4,336 shares of common stock to the former CEO at $1.25 per share upon his exercising options.

In January through March 2014, 9 warrant holders exercised warrants through a cashless exercise for a total of 15,442 shares of common stock.

In January and February 2014 the Company issued warrants to purchase 21,538 shares pursuant to a February 4, 2014 private placement whereby the Company issued 20,550 shares of Series A Convertible Preferred Stock raising gross proceeds of $2,055,000. The warrants are at an exercise price of $24.38.

In February 2014 the Company issued a warrant to purchase 1,482 shares of common stock at an exercise price of $20.25 to a major shareholder Dr. Samuel Herschkowitz. The warrant is in consideration for a bridge loan extended in December 2013 that has been paid in February 2014.

On March 31, 2014, 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 $19.50 per share. As a result 970 shares of common stock were issued to 16 holders of Preferred Shares.

In March 2014, the Company issued 4,444 shares of common stock to a warrant holder for a partial cash exercise at $11.25 per share; issued 3,333 shares to the holder via the cashless exercise of the remainder of the warrant.

In June 2014, the Company issued 3,725 shares of common stock to a warrant holder exercising cashless warrants.

On June 30, 2014, 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 $19.50 per share. As a result 1,561 shares of common stock were issued to 16 holders of Preferred Shares.

On June 30, 2014, the Company issued a warrant to purchase 5,431 shares of common stock at an exercise price of $12.38 to SOK Partners, LLC, in consideration for a bridge loan in the form of convertible notes. On September 9, 2014 the Resale Registration Statement went into effect. The convertible note agreement provided an immediate approximately 11% reduction to the warrant agreement. Therefore, the warrant has been adjusted to purchase 4,831 shares of common stock at an exercise price of $12.38 to SOK Partners, LLC in consideration for a bridge loan.

In July 2014, the Company issued warrants to purchase 28,986 shares of common stock at an exercise price of $12.38 to two lenders in consideration for a bridge loan in the form of convertible notes. The shares above reflect approximately an 11% reduction resulting from the Resale Registration Statement that went effective September 9, 2014.

In August 2014, the Company issued warrants to purchase 61,539 of common stock at an exercise price of $24.38 to the Purchasers of the Preferred Shares. The Securities Purchase Agreement with the Preferred Shareholders stipulated that if the Company was not listed on either the NASDAQ Stock Market, the New York Stock Exchange or the NYSE MKT within 180 days of closing the agreement then warrants to purchase the above additional shares would be issued in aggregate to the Preferred Shareholders.

In August and September 2014, the Company issued warrants to purchase 37,440 shares of common stock at an exercise price of $12.38 to four lenders in consideration for a bridge loan in the form of convertible notes. The shares above reflect the approximate 11% reduction resulting from the Resale Registration Statement that went effective September 9, 2014.

On September 30, 2014, 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 $19.50 per share. As a result 1,561 shares of common stock were issued to 16 holders of Preferred Shares.

In November 2014, the Company issued 13,700 shares of common stock, par value $0.01, in escrow for debt settlement.

On December 31, 2014, 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 $19.50 per share. As a result 1,559 shares of common stock were issued to 16 holders of Preferred Shares.

For grants of stock options and warrants in 2014 the Company used a 1.44% to 2.75% 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 $3.2006 to $13.9195 per share.

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 $19.50 per share, but should have been calculated at $9.75 per share. As a result 3,122 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 $9.75 per share. As a result 3,121 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 $9.75 per share. As a result 3,121 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 $0.2750 to $5.5695 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 rules for 1,000,000 shares of common stock, par value $0.01, at $0.15 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.

For grants of stock options and warrants in 2016 the Company used a 1.49% to 1.78% risk free interest rate, 0% dividend rate, 66% volatility and estimated terms of 5 to 10 years. Value computed using these assumptions ranged from $0.1087 to $0.1239 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, 2014	448,601	$	7.51	500,722	$	7.95
Issued	354,253		2.76	7,581,722		4.95
Expired	(19,136)		11.73	(1,967)		11.34
Exercised	-		-	(3,000)		4.95
Outstanding at December 31, 2015	783,718	$	5.33	8,077,477	$	5.14
Issued	217,650		0.14	18,272,042		0.06
Expired	(552,104)		4.94	-		-
Exercised	(32,796)		2.63	(16,796,628)		-
Outstanding at June 30, 2016	416,468	$	3.36	9,552,891	$	4.41

At June 30, 2016, 416,468 stock options are fully vested and currently exercisable with a weighted average exercise price of $3.36 and a weighted average remaining term of 7.50 years. All warrants are fully vested and exercisable. Stock-based compensation recognized for the six months ending June 2016 and June 2015 was $48,649 and $302,981, respectively. The Company has $0 of unrecognized compensation expense related to non-vested stock.

The following summarizes the status of options and warrants outstanding at June 30, 2016:

	Range of Prices	***Shares***	***Weighted Remaining Life***
Options			
$	0.15	100,002	10.00
$	0.17	88,236	9.76
$	0.75	7,333	5.02
$	2.63	8,559	9.32
$	2.94	28,913	9.51
$	3.10	58,068	9.01
$	3.21	4,674	9.26
$	3.45	5,796	8.76
$	4.875	134	6.70
$	5.25	2,031	6.19
$	5.925	23,206	6.72
$	6.00	43,998	6.13
$	6.50	3,076	8.51
$	8.25	3,030	8.26
$	9.9375	3,019	7.04
$	10.50	3,238	7.04
$	11.25	13,222	6.55
$	12.75	67	6.86
$	13.875	1,800	7.76
$	17.25	7,652	7.69
$	18.75	3,334	7.65
$	20.25	4,693	7.51
$	21.75	1,336	7.27
$	23.85	1,050	7.25
		416,468	
Warrants			
$	0.00	1,263,043	4.17
$	3.75	56,381	1.70
$	4.95	7,789,403	4.17
$	6.00	102,857	1.70
$	9.00	2,666	1.57
$	9.75	63,232	3.10
$	11.25	147,420	1.45
$	12.375	71,257	3.11
$	12.38	5,557	3.36
$	13.50	4,444	1.97
$	14.85	23,612	1.91
$	20.25	1,481	2.63
$	24.375	21,538	2.60
		9,552,891	

Stock options and warrants expire on various dates from June 2017 to June 2026.

On July 24, 2015, an amendment to the Certificate of Incorporation became effective, pursuant to which the authorized common stock was increased to 100,000,000 shares of common stock and the authorized preferred stock was increased to 20,000,000 shares.

Under a Separation Agreement effective June 13, 2016, all of our former CEO Josh Kornberg's 552,104 outstanding stock options were canceled.

Stock Options and Warrants Granted by the Company

The following table is the listing of stock options and warrants as of June 30, 2016 by year of grant:

Stock Options:

Year	Shares	Price		
2011	11,666	$0.75	-	11.25
2012	46,029	5.25	-	6.00
2013	40,299	4.875	-	23.85
2014	24,225	6.50	-	18.75
2015	106,010	2.63	-	3.45
2016	188,238	0.15	-	0.17
Total	416,468	$.15	-	23.85

Warrants:

Year	Shares	Price		
2012	69,801		11.25	
2013	267,579	3.75	-	14.85
2014	161,375	9.75	-	24.375
2015	9,054,136	$0.00	-	9.75
Total	9,552,891	$0.00	-	24.375

NOTE 4 – 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 71,257 shares.

As of June 30, 2016 $927,663 aggregate principal amount of Convertible Notes, plus accrued and unpaid interest thereto, have been converted into shares of our common stock and no aggregate principal amount of Convertible Notes remains outstanding.

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, 2016, none of the Convertible Notes were outstanding.

NOTE 5 - 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,	
	2016	**2015**	**2016**	**2015**
Numerator:				
Net loss available in basic and diluted calculation	$ (2,561,281)	$ (1,185,327)	$ (4,737,650)	$ (1,411,122)
Other comprehensive income:				
Unrealized gain from marketable securities	3,028	-	5,878	-
Comprehensive (loss)	(2,558,253)	(1,185,327)	(4,731,772)	(1,411,122)
Denominator:				
Weighted average common shares outstanding-basic	67,380,076	3,263,356	42,738,140	3,182,706
Effect of diluted stock options, warrants and preferred stock (1)	-	-	-	-
Weighted average common shares outstanding-basic	67,380,076	3,263,356	42,738,140	3,182,706
Loss per common share-basic and diluted	$ (0.04)	$ (0.36)	$ (0.11)	$ (0.44)

(1) The number of shares underlying options and warrants outstanding as of June 30, 2016 and June 30, 2015 are 9,969,359 and 1,133,856 respectively. 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 6 – INCOME TAXES

Availability and Utilization of Net Operating Losses

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 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.

During the first quarter of 2016, the Company likely had another ownership change that could further limit the Company’s ability to fully utilize its NOLs however, the determination of the annual limitation has not yet been made.

Income Taxes

At December 31, 2015, the Company had approximately $24.7 million of gross NOLs to reduce future federal taxable income, the majority of which are expected to be available for use in 2016, subject to the Section 382 limitation described above. The federal NOLs will expire beginning in 2022 if unused. The Company also had approximately $13.4 million of gross NOLs to reduce future state taxable income at December 31, 2015, which will expire in years 2022 through 2036 if unused. The Company’s net deferred tax assets, which include the NOLs, are subject to a full valuation allowance. At December 31, 2015, the federal and state valuation allowances were $9.6 million and $1.1 million, respectively.

At June 30, 2016, the Company had approximately $29.0 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 limitations described above. The federal NOLs will expire beginning in 2022 if unused. The Company also had approximately $15.0 million of gross NOLs to reduce future state taxable income at June 30, 2016, 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, 2016, the federal and state valuation allowances were $10.1 million and $0.2 million, respectively.

The components of deferred income taxes at June 30, 2016 and December 31, 2015 are as follows:

	June 30, 2016	December 31, 2015
Deferred Tax Asset:		
Net Operating Loss	$ 10,179,000	$ 10,338,000
Other	204,000	359,000
Total Deferred Tax Asset	10,383,000	10,697,000
Less Valuation Allowance	10,383,000	10,697,000
Net Deferred Income Taxes	$ —	$ —

NOTE 7 – 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. In addition to rent, the Company pays real estate taxes and repairs and maintenance on the leased property. Rent expense was $17,000 and $33,750 for the three and six months ended June 30, 2016 and was $15,823 and $34,256 for the three and six months ended June 30, 2015 respectively.

The Company’s rent obligation for the next three years is as follows:

2016	$	19,000
2017	$	39,000
2018	$	3,600

NOTE 8 – 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.

In connection with the sale of the Series A Preferred Share on February 4, 2014, Josh Kornberg, our former, and then President, CEO and Interim Chairman of the Board, was one of the Purchasers. Mr. Kornberg purchased 19,231 Preferred Shares for a purchase price of $25,000 and received warrants to purchase 52 shares of common stock.

SOK Partners, LLC (“SOK”), a large stockholder with Mr. Kornberg and Dr. Samuel Herschkowitz as managing partners, invested in the July 2014 offering of convertible notes and warrants. In November 2014, the convertible noteholders agreed to convert certain balances of the convertible notes in connection with the public offering of the Existing Units, in consideration of the agreement to issue certain additional shares. See “Management’s Discussion and Analysis of Financial Conditions and Results of Operations – Liquidity and Capital Resources – History Financing – 2014 Sales of Convertible Notes and Warrants.” In connection with the Unit Offering in August 2015, all such convertible notes were redeemed at a redemption price of 140% of the principal amount thereof, plus accrued and unpaid interest. The Company paid approximately $163,000 to SOK in redemption of its convertible note. In addition, Rick Koenigsberger, a former director who resigned on June 5, 2015, is a holder of membership units of SOK Partners.

In connection with the Unit Exchange that was consummated on August 31, 2015, 250 shares of Series A Convertible Stock held by Mr. Kornberg were exchanged for 2,778 Exchange Units.

Note 9 – 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 2016 and 2015, we matched 100%, of the employee’s contribution up to 4% of their earnings. The employer contribution was $9,677 and $20,795 for the three and six months ending June 30, 2016 and was $6,652 and $14,713 for the three and six months ending June 30, 2015, respectively.

Note 10 – SUPPLEMENTAL CASH FLOW DATA

There were no cash payments for interest for the three and six months ended June 30, 2016 and were $441 and $10,161 for the three and six months ended June 30, 2015.

Note 11 – SUBSEQUENT EVENTS

On July 1, 2016, the Company hired Peter D. Alex as the new Vice President of Sales.

Note 12 – INVESTMENT SECURITIES AND OTHER COMPREHENSIVE INCOME (LOSS)

The cost and fair values of investment securities available-for-sale at June 30, 2016 were as follows:

	June 30, 2016			
Description	**Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Mutual Funds	$ 850,000	$ 5,878	$ -	$ 855,878

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 are a development stage company manufacturing 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 ("FMS") and use of our proprietary cleaning fluid and filter kit.

We currently have one regional sales manager to sell the STREAMWAY FMS, and have recently hired a new Vice President of Sales to build our sales and marketing infrastructure. In 2014 we signed a contract with an independent distributor covering New York and surrounding areas as well as, three other independent contracting groups handling parts of the Midwest, the Southeast and Oklahoma. In 2016, we signed a contract with a large independent distributor covering Georgia and South Carolina. We also signed a reseller agreement granting Munro Enterprises LLC certain exclusive rights to market and distribute the STREAMWAY FMS to the U.S. federal government including U.S. Department of Veterans Affairs, U.S. Department of Defense and U.S. Health and Human Services facilities, among others. Munro Enterprises LLC is an Economically-Disadvantaged, Woman-Owned Small Business.

Since inception, we have been unprofitable. We incurred net losses of approximately $2.6 million and $4.7 million for the three and six months ended June 30, 2016, and $1.2 million and $1.4 million for the three months and six months ended June 30, 2015, respectively. As of June 30, 2016 and June 30, 2015, we had an accumulated deficit of approximately $45.2 million and $37.1 million, respectively. We received approval from the FDA in April 2009 to commence sales and marketing activities of the STREAMWAY FMS 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 FMS, which provides a number of 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 sold ninety-four STREAMWAY FMS units to date.

We expect the revenue for STREAMWAY FMS units to increase significantly at such time as the 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. 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. 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.

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 $85,000 of revenue in the three months ended June 30, 2016 compared to $234,000 in revenue in the three months ended June 30, 2015. The Company recognized $182,000 of revenue in the six months ended June 30, 2016 compared to $385,000 in revenue in the six months ended June 30, 2015.There were no sales of STREAMWAY FMS units in the 2016 period, as sales efforts were curtailed in late 2015 due to our concentrated efforts on customer management. The ramp up in our sales efforts following our public offering have not yet resulted in sales of units. In July 2016, we have hired a new Vice President of Sales who will rebuild the infrastructure of our sales team and we expect a positive impact on future sales.

Cost of sales. Cost of sales was $37,000 in the three months ended June 30, 2016 and $84,000 in the three months ended June 30, 2015. Cost of sales was $123,000 in the six months ended June 30, 2016 and $180,000 in the six months ended June 30, 2015. The gross profit margin was approximately 33% in the six months ended June 30, 2016 compared to 53% in the six months ended June 30, 2015. Our margins were reduced in the first six months as we replaced our original STREAMWAY units for the new iteration units at no charge to our customers. Our margins still vary as our initial production of the STREAMWAY has been released for sale. We expect our margins to increase over the remainder of the year as our manufacturing production becomes more consistent, and as increased sales allow us to achieve volume purchasing discounts on both equipment components and our cleaning solution. Over the next several quarters, we expect increases in revenues to exceed increases in costs related to increasing manufacturing and sales capabilities.

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 increased by $1,406,000 from the three months ended June 30, 2016 compared to June 30, 2015. G&A expenses increased by $3,223,000 from the six months ended June 30, 2016 compared to June 30, 2015. For the three month period ending June 30, 2016 severance pay increased by $1,000,000 due to the negotiated settlement with the former CEO. The payout is over an eighteen month period, but the expense is accounted for in the current quarter. Investors stock compensation increased by $625,000 predominantly due to hiring an investment banking firm in connection with potential acquisitions and capital raises, as well as, investment planning. The firm received 3,399,864 shares of common stock valued at $0.15 per share. Investor relations increased by $150,000 essentially because of printing and management fees connected to the tender offer exchanges. Legal fees increased by $178,000 due to the Unit Exchange Offer, the Exchange Offer and negotiations with our former CEO. Recruiting fees increased by $51,000 relating to our hiring a new Vice President of Sales. Offsets include reductions to bonuses of $207,000 primarily reversing amounts due to the former CEO as part of the settlement negotiations; reductions to stock based compensation of $128,000; reduced audit fees of $48,000; reduced tax penalties and interest of $45,000 that were paid out in 2015; and $110,000 in reduced miscellaneous expenses that were for forbearance fees paid in 2015. The six month increase was affected by severance pay increasing $1,000,000 due to the negotiated settlement with the former CEO. Investors stock compensation increased by $1,083,000 due to the new investment banker and the exercise of cashless warrants as a result of the separation of the Units in February 2016. Legal fees increased by $502,000 as explained above. Recruiting fees increased by $121,000 due to hiring the new Vice President of Sales. Offsets include: bonuses reductions for $534,000, stock based compensation of $135,000, tax and penalties of $115,000 and miscellaneous expenses of $122,000; all of which are explained above.

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

Operations expense increased by $93,000 in the three months ended June 30, 2016 compared to the three months ended June 30, 2015. The three month increase was due to increased salaries of $25,000 for new engineer and quality control positions; additional consulting expenses of $14,000 to assist in our STREAMWAY software upgrades and by $42,000 for research and development. Operations expense increased by $463,000 in the six months ended June 30, 2016 compared to the three months ended June 30, 2015. The six month increase was due to $50,000 in increased salaries for the two new positions mentioned above; $249,000 in bonuses as a result of the 2015 reversal of bonus accruals as waived by officers and the additional bonus in 2016 resulting from options exercised; $14,000 in consulting expenses for the STREAMWAY software upgrades and $102,000 for research and development expenses.

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 expenses decreased by $36,000 in the three months ended June 30, 2016 compared to the three months ended June 30, 2015. The three month decrease was due to a $32,000 reduction from a difference in salaries from reducing the sales managerial staff in 2015; reduced commissions of $22,000 due to lower sales in 2016 and a reduction in sales bonuses of $28,000. Offsets were increased advertising expenses of $42,000 as we ramp up brand awareness in 2016, and consulting expenses of $11,000 as we investigated our government sales options. Sales expense decreased by $162,000 in the six months ended June 30, 2016 compared to the six months ended June 30, 2015. The six month decrease was due to $113,000 reduction in salaries; $32,000 in commissions; and $56,000 in reduced bonuses. Offsets, as explained above, were due to $45,000 in increased advertising and $45,000 in increased consulting expenses.

Interest expense. Interest decreased by $189,000 in the three months ended June 30, 2016 compared to the three months ended June 30, 2015, and by $343,000 in the six months ended June 30, 2016 compared to the six months ended June 30, 2015, as there was no outstanding debt during this period.

Liquidity and Capital Resources

Cash Flows

Net cash used in operating activities was $2,785,000 for the six months ended June 30, 2016 compared with net cash used of $214,000 for the 2015 period. The $2,571,000 increase in cash used in operating activities was primarily due to the increased net loss in 2016, partially offset by the issuance of common stock in cashless warrant exchanges and equity instruments issued for consulting as a result of hiring an investment banking firm.

Cash flows used in investing activities was $1,575,000 for the six months ended June 30, 2016 and $7,700 for the six months ended June 30, 2015. The Company invested in marketable securities and certificates of deposits. There was a moderate increase to purchases in fixed assets and minimal fees related to patents.

Net cash provided by financing activities was $86,000 for the six months ended June 30, 2016 compared to net cash provided of $250,000 for the six months ended June 30, 2015. The Chief Operating Officer and the Chief Financial Officer exercised options.

Capital Resources

We had a cash balance of $583,000 as of June 30, 2016. Since our inception, we have incurred significant losses. As of June 30, 2016, we had an accumulated deficit of approximately $45,200,000.

From inception to June 30, 2016, our operations have been funded through a bank loan and private convertible debt of approximately $5,685,000 and equity investments totaling approximately $22,415,000.

In the first six months of 2016, we recognized $182,000 in revenues. Our product sales since the end of the second quarter have resulted in approximately $38,000 in revenues.

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) $15,443.20 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 (d) 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 500,000 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 sale 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 552,104 shares and 66,667 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 is incorporated herein by reference as Exhibit 10.1.

Plan of Financing; Going Concern Qualification

Since our inception, we have incurred significant losses, and our accumulated deficit was approximately $45.2 million as of June 30, 2016. 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, after deducting underwriting discounts, commissions and expenses. We currently have no outstanding bank debt and no secured indebtedness.

We have not achieved profitability and anticipate that we will continue to incur net losses at least through fiscal 2016.

We had revenues of $182,000 in 2016, but we had negative operating cash flows of $2.8 million. In August 2015, we received proceeds of $13.5 million, after deducting underwriting discounts, commissions and expenses, as a result of our public offering. During the first quarter of 2016 and the remainder of 2015, we paid $10.2 million in cash to cover accrued debts and obligations, most of which were required to be paid upon completion of the offering or were considered past due. Additionally, we have covered our monthly operating expenses, research and development costs and expanded effort in sales and marketing including the successful search for our newly hired Vice President of Sales. Our cash balance was $0.6 million as of June 30, 2016, and our accounts payable and accrued expenses were an aggregate $2.1 million. We are currently incurring negative operating cash flows of approximately $500,000 per month predominantly for legal and professional fees associated with our recent tender offers. We have reduced our monthly negative cash flow to approximately $325,000 beginning in June 2016. 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 efforts and maintain adequate inventories.

As of June 30, 2016, the Company had no debt. We will require additional funding to finance operating expenses and to invest in our sales organization and new product development and to enter the international marketplace. 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 our 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.

Terminated Exchange offer for Units

In January 2016 we commenced a registered offer (the "Unit Exchange Offer") to exchange, on a one-for-one basis, new units in exchange for the 1,895,010 outstanding units (the "Units") that were issued in our August 2015 public offering and a concurrent issuance of Units in exchange for previously outstanding Series A Preferred Stock. Each new unit, if issued, would have consisted of shares of common stock and certain warrants to purchase common stock. On March 2, 2016, we announced the termination of the Exchange Offer. None of the Units were accepted for exchange in the Unit Exchange Offer.

Exchange Offer for Series A 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.

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 to purchase 18,059,671 shares of the Company's common stock were tendered by holders of Series A Warrants. On April 25, 2016, the Company delivered an aggregate of 18,059,671 Series B Warrants pursuant to the terms of the Exchange Offer.

Additional Exercise of Warrants

In addition, between March 31, 2016 and April 21, 2016, 1,040,373 Series A Warrants were exercised in cashless exercises, resulting in the issuance of 10,454,136 shares of common stock.

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 FMS units as well as shipments of cleaning solution and filter consumables. 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 FMS unit or significant quantities of cleaning solution and filter consumables may be returned. Additionally, since we buy both the STREAMWAY FMS units and cleaning solution and filter consumables 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.

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 Company wrote off the entire original STREAMWAY FMS product patent of $140,588 in June 2013. The balance represented intellectual property in the form of patents for our original STREAMWAY FMS product. The Company's enhanced STREAMWAY FMS 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:

- Inability to raise sufficient additional capital to operate our business;
- 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; 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, 2015. 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 is 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 Interim 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 Interim 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 Interim Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2016.

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, 2016 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, 2015. There have been no material changes in the Company's risk factors from those disclosed in Part I, Item 1A, of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 with the exception of the amendment and replacement of the first risk factor below.

We will require additional financing to finance operating expenses and fulfill our business plan. Such financing will be dilutive. Our independent public accounting firm has indicated in their audit opinion, contained in our financial statements, that they have serious doubts about our ability to remain a going concern.

We had revenues of $182,000 in the quarters ended June 30, 2016, but we had negative operating cash flows of $2.8 million in those quarters. In August 2015, we received proceeds of $13.5 million, after deducting underwriting discounts, commissions and expenses, as a result of our public offering. During the first quarter 2016 and the remainder of 2015, we paid $10.2 million in cash to cover accrued debts and obligations, most of which were required to be paid upon completion of the offering or were considered past due. Additionally, we have covered our monthly operating expenses, research and development costs and expanded effort in sales and marketing including the successful search for our newly hired Vice President of Sales. Our cash balance was $0.6 million as of June 30, 2016, and our accounts payable and accrued expenses were an aggregate $2.1 million. We are currently incurring negative operating cash flows of approximately $500,000 per month predominantly for legal and professional fees associated with our recent tender offers. We expect our monthly negative cash flow to reduce to approximately $325,000 beginning in June 2016. 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 efforts and maintain adequate inventories.

As of June 30, 2016, the Company had no debt. We will require additional funding to finance operating expenses and to invest in our sales organization and new product development and to enter the international marketplace. 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 our annual report on Form 10-K filed on March 16, 2016, 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. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources."

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

On May 26, 2016, the Company issued 3,399,864 shares of common stock valued at $0.15 per share to an investment banking firm as compensation for its services in connection with potential acquisitions and capital raises, as well as investment planning.

On July 1, 2016, the Company issued inducement stock options in accordance with NASDAQ listing rules for 1,000,000 shares of common stock, par value $0.01, at $0.15 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. The issuance of these inducement options were made pursuant to the exemption set forth in Section 4(2) of the Securities Act of 1933, as amended for transactions not involving a public offering, and regulations promulgated thereunder. The Company intends to register the shares issuable under the option of Form S-8.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

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 15, 2016	By:	/s/ Carl Schwartz
		Carl Schwartz
		Interim Chief Executive Officer
Date: August 15, 2016	By:	/s/ Bob Myers
		Bob Myers
		Chief Financial Officer

EXHIBIT INDEX

SKYLINE MEDICAL INC.
Form 10-Q

The quarterly period ended June 30, 2016

Exhibit No.	Description
10.1	Separation Agreement and Release between Skyline Medical Inc. and Joshua Kornberg, dated June 13, 2016 (1)
10.2	Amended and Restated 2012 Stock Incentive Plan (2)
31.1*	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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**

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* 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.

(1) Filed on June 17, 2016 as an exhibit to our Current Report of Form 8-K and incorporated herein by reference.

(2) Filed on June 24, 2016 as an exhibit to our Proxy Statement on Schedule 14A and incorporated herein by reference.

Exhibit 31.1

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 15, 2016

/s/ Carl Schwartz
Carl Schwartz
Interim Chief Executive Officer

Exhibit 31.2

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 15, 2016

/s/ Bob Myers
Bob Myers
Chief Financial Officer

Exhibit 32.1

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, 2016 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 15, 2016

/s/ Carl Schwartz
Carl Schwartz
Interim Chief Executive Officer

Date: August 15, 2016

/s/ Bob Myers
Bob Myers
Chief Financial Officer