

Prospectus Supplement No. 1  
(to Prospectus dated August 25, 2015)

1,666,667 Units – Each Unit Consisting of One Share of Common Stock, One Share of Series B Convertible Preferred Stock and Four Series A Warrants



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This prospectus supplement supplements the prospectus dated August 25, 2015 (the “Prospectus”), which relates to the offering of the securities of Skyline Medical Inc. (the “Company,” “we,” or “our”) that are underlying the Series B Convertible Preferred Stock and Series A Warrants that were part of the units (the “Units”) we issued in our public offering, which closed initially on August 31, 2015 (the “Offering”). Such securities include 1,666,667 shares of our common stock issuable upon conversion of the Series B Convertible Preferred Stock and 6,666,668 shares of our common stock issuable upon the exercise of the Series A Warrants.

The shares of our common stock, the shares of Series B Convertible Preferred Stock and the Series A Warrants that comprise the Units will automatically separate on February 29, 2016. However, the shares of our common stock, the shares of the Series B Convertible Preferred Stock and the Series A Warrants will become separable prior to February 29, 2016 if at any time after September 30, 2015 either (i) the closing price of our common stock on the NASDAQ Capital Market is greater than 200% of the Series A Warrants exercise price for a period of 20 consecutive trading days (the “Trading Separation Trigger”), (ii) all Series A Warrants in a given Unit are exercised for cash (solely with respect to the Units that include the exercised Series A Warrants) (a “Warrant Cash Exercise Trigger”) or (iii) the Units are delisted (the “Delisting Trigger”) from the Nasdaq Capital Market for any reason (any such event, a “Separation Trigger Event”). Upon the occurrence of a Separation Trigger Event, the Units will separate: (i) 15 days after the date of the Trading Separation Trigger, (ii) on the date of any Warrant Cash Exercise Trigger (solely with respect to the Units that include the exercised Series A Warrants) or (iii) on the date of the Delisting Trigger, as the case may be. We refer to the separation of the Units prior to February 29, 2016 as an Early Separation.

The Series B Convertible Preferred Stock will become convertible into common stock on February 29, 2016 or on the date of an Early Separation. In addition, the Series B Preferred Stock will automatically convert into shares of common stock upon the occurrence of a Fundamental Transaction (as defined in the Prospectus). The Series A Warrants are exercisable upon the separation of the Units, provided that all Series A Warrants in a given Unit may be exercised for cash at any time after September 30, 2015. The Prospectus covers the shares of common stock issuable from time to time upon the conversion of the Series B Convertible Preferred Stock and upon exercise of the Series A Warrants. The Prospectus also covers the Units and underlying securities issuable upon exercise of the unit purchase option issued to the underwriter.

This prospectus supplement incorporates into the Prospectus the information contained in our quarterly report on Form 10-Q, filed with the Securities and Exchange Commission on November 12, 2015.

This prospectus supplement should be read in conjunction with the Prospectus. This prospectus supplement updates, amends and supplements the information included or incorporated by reference in the Prospectus. If there is any inconsistency between the information in the Prospectus and this prospectus supplement, you should rely on the information in this prospectus supplement.

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This prospectus supplement is not complete without, and may not be delivered or utilized except in connection with, the Prospectus, including any supplements and amendments thereto.

Our common stock and the Units are listed on The NASDAQ Capital Market under the symbols "SKLN" and "SKLNU", respectively. On November 10, 2015, the closing sale price of our common stock and the Units on The NASDAQ Capital Market was \$3.74 per share and \$8.51 per Unit, respectively.

**INVESTING IN OUR SECURITIES INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 13 OF THE PROSPECTUS AND BEGINNING ON PAGE 36 OF THE ATTACHED FORM 10-Q.**

**NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE UNITS OR THE UNDERLYING SECURITIES OR DETERMINED IF THE PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

The date of this prospectus supplement is November 12, 2015

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FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

or

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

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

Commission File Number: 001-36790

Skyline Medical Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

33-1007393

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

2915 Commers Drive, Suite 900

(Address of principal executive offices)

Eagan, Minnesota 55121

(Zip Code)

651-389-4800

(Registrant's telephone number, including area code)

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

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

Yes  No

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

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 October 13, 2015, the registrant had 5,203,428 shares of common stock, par value \$.01 per share, outstanding.

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SKYLINE MEDICAL INC.

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

	<u>September 30, 2015</u>	<u>December 31, 2014</u>
<b>Current Assets:</b>		
Cash	\$ 7,733,097	\$ 16,384
Accounts Receivable	14,196	57,549
Inventories	236,890	367,367
Prepaid Expense and other assets	213,223	190,015
<b>Total Current Assets</b>	<u>8,197,406</u>	<u>631,315</u>
<b>Fixed Assets, net</b>	<u>126,570</u>	<u>196,479</u>
<b>Intangibles, net</b>	<u>92,402</u>	<u>73,183</u>
<b>Total Assets</b>	<u>\$ 8,416,378</u>	<u>\$ 900,977</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY/(DEFICIT)</b>		
<b>Current Liabilities:</b>		
Accounts Payable	1,138,512	2,194,518
Accrued Expenses	1,434,412	3,066,379
Short-term notes payable net of discounts of \$0 and \$194,097 (See Note 4)	-	937,424
Deferred Revenue	29,180	5,000
<b>Total Current Liabilities</b>	<u>2,602,104</u>	<u>6,203,321</u>
Accrued Expenses	-	213,883
<b>Total Liabilities</b>	<u>\$ 2,602,104</u>	<u>\$ 6,417,204</u>
<b>Commitments and Contingencies</b>	-	-
<b>Stockholders' Equity/(Deficit):</b>		
Series A Convertible Preferred Stock, \$.01 par value, \$100 Stated Value, 20,000,000 authorized, 0 and 20,550 outstanding	-	206
Series B Convertible Preferred Stock, \$.01 par value, 10,000,000 authorized, 1,895,010 and 0 outstanding	18,950	-
Common Stock, \$.01 par value, 100,000,000 authorized, 5,203,428 and 3,092,766 outstanding	52,033	30,927
Additional paid-in capital	43,972,722	30,093,745
Accumulated Deficit	(38,229,431)	(35,641,105)
<b>Total Stockholders' Equity/(Deficit)</b>	<u>5,814,274</u>	<u>(5,516,227)</u>
<b>Total Liabilities and Stockholders' Equity/(Deficit)</b>	<u>\$ 8,416,378</u>	<u>\$ 900,977</u>

See Notes to Condensed Financial Statements

**SKYLINE MEDICAL INC.**  
**CONDENSED STATEMENTS OF OPERATIONS**  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue	\$ 85,792	\$ 397,254	\$ 471,078	\$ 785,767
Cost of goods sold	19,773	134,726	199,307	264,174
Gross Margin	66,019	262,528	271,771	521,593
General and administrative expense	861,098	737,519	1,589,522	3,247,024
Operations expense	202,799	183,154	375,429	740,012
Sales and marketing expense	66,720	325,141	439,703	849,364
Interest expense	51,804	131,935	394,641	164,962
Gain on valuation of equity-linked financial instruments	-	-	-	(11,599)
Total expense	1,182,421	1,377,749	2,799,295	4,989,763
Net loss available to common shareholders	\$ (1,116,402)	\$ (1,115,221)	\$ (2,527,524)	\$ (4,468,170)
Loss per common share basic and diluted	\$ (0.28)	\$ (0.37)	\$ (0.74)	\$ (1.51)
Weighted average shares used in computation, basic and diluted	3,936,126	2,984,335	3,435,700	2,967,483

See Notes to Condensed Financial Statements

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

	Common Stock					
	Preferred Stock	Shares	Amount	Paid- in Capital	Deficit	Total
Balance at 12/31/13	\$ -	2,932,501	\$ 29,325	\$ 25,449,636	\$ (28,697,415)	\$ (3,218,454)
Shares issued for cashless warrant exercise at \$15.00 per share		1,728	17	1,279		1,296
Shares issued for option exercise at \$1.25 per share		4,336	43	5,387		5,430
Shares issued at \$20.63 per share as Investor Relations compensation		2,000	20	41,230		41,250
Shares issued for cashless warrant exercise at \$12.75 per share		3,323	33	2,460		2,493
Shares issued for an option exercise at \$5.25 per share		267	3	1,397		1,400
Shares issued for cashless warrant exercise at \$.75 per share		2,174	22	1,608		1,630
Shares issued for warrant exercise at \$13.50 per share		2,667	27	35,973		36,000
Shares issued at \$18.75 per share as Investor Relations compensation		1,333	13	24,987		25,000
Reduction in escrow account per settlement agreement		(4,444)	(44)	(3,289)		(3,333)
Shares issued for cashless warrant exercise at \$7.50 per share		4,807	48	3,557		3,605
Shares issued for cashless warrant exercise at \$5.63 per share		3,112	31	2,302		2,333
Shares issued for cashless warrant exercise at \$12.75 per share		299	3	221		224
Shares issued to 16 shareholders of Series A Convertible Preferred Stock Dividends as converted to common shares at \$19.50 per share		972	10	18,909	(18,919)	-
Vesting Expense			-	705,434		705,434
Options issued as part of employee bonus			-	694,500		694,500
Shares issued for combined cashless and cash warrant exercise @ \$11.25 per share.		7,778	78	52,422		52,500
Issuance of Preferred stock	206		-	2,054,795		2,055,001
Shares issued to Investor Relations consultant exercisable at \$11.25 per share		2,133	21	23,979		24,000
Shares issued to Investor Relations consultant exercisable at \$18.75 per share		1,333	13	24,987		25,000
Shares issued for cashless warrant exercise at \$13.50 per share		3,725	37	2,757		2,794
Shares issued to 16 shareholders of Series A Convertible Preferred Stock Dividends as converted to common shares at \$19.50 per share		1,561	16	30,384	(30,400)	-
Value of equity instruments issued with debt			-	313,175		313,175
Shares issued for cashless warrant exercise at \$9.75 per share		1,410	14	1,044		1,058
Shares issued for a cash warrant exercise at \$5.63 per share		11,111	111	62,389		62,500
Shares issued for an option exercise at \$5.25 per share		333	3	1,747		1,750
Shares issued for a note conversion at \$6.68 per share		3,018	30	19,970		20,000
Shares issued for a note conversion at \$6.68 per share		3,019	30	19,970		20,000
Shares issued for a note conversion at \$5.85 per share		3,435	34	19,966		20,000
Shares issued for a note conversion at \$5.03 per share		3,894	38	19,962		20,000
Shares issued to 16 shareholders of Series A Convertible Preferred Stock Dividends as converted to common shares at \$19.50 per share		1,561	16	30,385	(30,401)	-
Shares issued for a note conversion at \$5.14 per share		3,894	39	19,961		20,000
Shares issued for a note conversion at \$5.00 per share		3,997	40	19,960		20,000
Shares issued for a note conversion at \$5.26 per share		3,804	38	19,962		20,000
Shares issued for a note conversion at \$5.26 per share		5,706	57	29,943		30,000
Shares issued for a note conversion at \$5.95 per share		5,044	50	29,950		30,000
Shares issued into an escrow account per settlement agreement		13,700	137			137
Shares issued for a note conversion at \$5.05 per share		55,568	556	280,060		280,616
Shares issued to 16 shareholders of Series A Convertible Preferred Stock Dividends as converted to common shares at \$19.50 per share		1,561	16	30,385	(30,402)	(1)
Shares adjusted for rounding per reverse stock split		106	1	1	-	2
Net loss			-	-	(6,833,568)	(6,833,568)
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)
Shares issued for a note conversion at \$2.00 per share	20,000	200	39,800	40,000
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 \$2.00 per share	15,000	150	29,850	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)
Vesting Expense		-	320,334	320,334
Shares issued in public offering; net	16,667	1,666,667	16,667	13,027,546
Preferred stock conversion	2,077	228,343	2,283	(4,360)
Net loss		-	-	(2,527,524)
Balance @ 9/30/2015	<u>\$ 18,950</u>	<u>5,203,428</u>	<u>\$ 52,033</u>	<u>\$ 43,972,722</u>
				<u>\$ (38,229,431)</u>
				<u>\$ 5,814,274</u>

See Notes to Financial Statements

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

	<b>Year Ended</b>	
	<b>September 30,</b>	
	<b>2015</b>	<b>2014</b>
Cash flow from operating activities:		
Net loss	\$ (2,527,524)	\$ (4,468,170)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	57,512	44,118
Vested stock options and warrants	320,334	440,117
Equity instruments issued for management and consulting	(6,667)	111,917
Amortization of debt discount	219,097	87,853
Penalty on debt provision	10,031	-
Loss on Sales of Equipment	16,917	-
(Gain) loss on valuation of equity-linked instruments	-	(11,599)
Changes in assets and liabilities:		
Accounts receivable	43,353	(141,359)
Inventories	130,477	(193,445)
Prepaid expense and other assets	(23,208)	(88,362)
Accounts payable	(1,056,006)	515,710
Accrued expenses	(1,845,850)	624,530
Deferred Revenue	24,180	(64,000)
Net cash used in operating activities:	\$ (4,637,354)	\$ (3,142,690)
Cash flow from investing activities:		
Purchase of fixed assets	-	(102,954)
Purchase of intangibles	(23,739)	(19,346)
Net cash used in investing activities:	\$ (23,739)	\$ (122,300)
Cash flow from financing activities:		
Proceeds from long-term and convertible debt	250,000	1,500,000
Principal payments on debt	(933,074)	(305,000)
Net proceeds from issuance of preferred stock	18,950	2,055,000
Net proceeds from issuance of common stock	13,041,930	157,081
Net cash provided by financing activities:	\$ 12,377,806	\$ 3,407,081
Net increase in cash	7,716,713	142,091
Cash at beginning of period	16,384	101,953
Cash at end of period	<u>\$ 7,733,097</u>	<u>\$ 244,044</u>
Non cash transactions:		
Common stock issued for accrued interest/bonus	-	694,500
Common stock issued to satisfy debt	<u>483,478</u>	<u>80,000</u>

See Notes to Condensed Financial Statements

**SKYLINE MEDICAL INC.**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**(Amounts presented at and for the three and nine months ended September, 2015 and September, 2014 are unaudited)**

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

**Nature of Operations and Continuance of Operations**

Skyline Medical Inc. (the "Company") was incorporated under the laws of the State of Minnesota in 2002. Effective August 6, 2013, the Company changed its name to Skyline Medical Inc. As of September 30, 2015, the registrant had 5,203,428 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 September 30, 2015, the Company raised approximately \$22,723,061 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.

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.

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. We are currently evaluating the impact this guidance may have 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.

**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 \$500 and \$1,917 in the three and nine months ended September 30, 2015 and were \$4,201 and \$11,994 in the three and nine months ended September 30, 2014.

### **Research and Development**

Research and development costs are charged to operations as incurred. Research and development expenses were \$58,792 and \$179,739 in the three and nine months ended September 30, 2015 and were \$72,294 and \$321,929 in the three and nine months ended September 30, 2014.

### **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 cleaning solution kits. 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 kits may be returned. Additionally, since the Company buys both the STREAMWAY FMS units and cleaning solution kits from "turnkey" suppliers, the Company would have the right to replacements from the suppliers if this situation should occur.

### **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:

	September 30, 2015	December 31, 2014
Finished goods	\$ 46,208	\$ 88,362
Raw materials	182,994	237,556
Work-In-Process	7,688	41,449
Total	<u>\$ 236,890</u>	<u>\$ 367,367</u>

## Property and Equipment

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

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

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

	September 30, 2015	December 31, 2014
Computers and office equipment	\$ 121,901	\$ 123,708
Leasehold improvements	23,874	23,874
Manufacturing tooling	97,288	97,288
Demo Equipment	8,962	30,576
Total	<u>252,025</u>	<u>275,446</u>
Less: Accumulated depreciation	<u>125,455</u>	<u>78,967</u>
Total Fixed Assets, Net	<u>\$ 126,570</u>	<u>\$ 196,479</u>

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

## Intangible Assets

Intangible assets consist of trademarks and patent costs. Amortization expense was \$1,632 and \$4,520 in the three and nine months ended September 30, 2015, and was \$0 in the three and nine months ended September 30, 2014. 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 2011 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.

## **Subsequent Events**

In preparing these financial statements the Company evaluated for recognition or disclosure the events or transactions that occurred through November 13, 2015, the date of this filing. Except as discussed in Note 11 there were no subsequent events that required recognition or disclosure in the financial statements.

## **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 April 30, 2015. 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 September 30, 2015, 5,203,428 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.

On August 25, 2015, the Company, in connection with a public offering (the “Offering”) of the Units, entered into an underwriting agreement (the “Underwriting Agreement”) with Dawson James Securities, Inc., as underwriter (the “Underwriter”). Pursuant to the Underwriting Agreement, the Company agreed to sell 1,666,667 Units. The public offering price for the Units was \$9.00 per Unit and the purchase price for the Underwriter under the Underwriting Agreement 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.

Pursuant to the Underwriting Agreement, the Company agreed to issue to the Underwriter a unit purchase option (the “Unit Purchase Option”) more fully described below. The Company had also agreed to pay the Underwriter a non-accountable expense allowance equal to 1% of the gross proceeds of the Offering (excluding any proceeds from the over-allotment option, if any), as well as to reimburse expenses incurred by the Underwriter up to \$70,000.

Pursuant to the Underwriting Agreement, the Company agreed to indemnify the Underwriter against certain liabilities, including liabilities under the Securities Act, and liabilities arising from breaches of representations and warranties contained in the Underwriting Agreement, or to contribute to payments that the Underwriter may be required to make in respect of those liabilities. The Underwriting Agreement also contains representations, warranties, conditions precedent to closing and other provisions customary for transactions of this nature.

#### Unit Agreement

The Units were issued pursuant to a Unit Agreement, dated August 31, 2015, between the Company and Corporate Stock Transfer, Inc. (the “Unit Agreement”). Each Unit consists of one share of common stock, par value \$0.01 per share (the “Common Stock”), one share of Series B Convertible Preferred Stock and four Series A Warrants. The shares of Common Stock, the shares of Series B Convertible Preferred Stock and the Series A Warrants that comprise the Units will automatically separate on February 29, 2016, which is the six month anniversary of August 31, 2015 (the “Issuance Date”). However, the shares of Common Stock, the shares of Series B Convertible Preferred Stock and the Series A Warrants will separate prior to the expiration of such six-month anniversary if at any time after September 30, 2015, either (i) the closing price of the Company’s common stock on the NASDAQ Capital Market is greater than 200% of the Series A Warrants exercise price for a period of 20 consecutive trading days (the “Trading Separation Trigger”), (ii) all Series A Warrants in a given Unit are exercised for cash (solely with respect to the Units that include the exercised Series A Warrants) (a “Warrant Cash Exercise Trigger”) or (iii) the Units are delisted (the “Delisting Trigger”) from the NASDAQ Capital Market for any reason (any such event, a “Separation Trigger Event”). Upon the occurrence of a Separation Trigger Event, the Units will separate: (i) 15 days after the date of the Trading Separation Trigger, (ii) on the date of any Warrant Cash Exercise Trigger (solely with respect to the Units that include the exercised Series A Warrants) or (iii) the date of the Delisting Trigger, as the case may be. This separation of the Units prior to February 29, 2016 is referred to herein as an “Early Separation.”

For a description of the terms of the Series B Convertible Preferred Stock included within the Units, see “Certificate of Designation for 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.

#### Warrant Agreement / Series A Warrants

The Series A Warrants are issued pursuant to the Warrant Agency Agreement, dated as of August 31, 2015 between the Company and Corporate Stock Transfer, Inc. (the “Warrant Agreement”). The Series A Warrants are exercisable upon the separation of the Units, provided that all Series A Warrants in a given Unit may be exercised for cash at any time commencing 30 days after the Issuance Date. The Series A Warrants will terminate on the fifth anniversary of the Issuance Date. Each Series A Warrant is exercisable into one share of our common stock at an initial cash exercise price of \$4.95 per share. The exercise price and number of shares of common stock issuable upon exercise is subject to appropriate adjustment in the event of stock dividends, stock splits, reorganizations or similar events affecting the Common Stock and the exercise price.

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

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).

As defined in the Series A Warrants, “Black Scholes Value” means the Black Scholes value of an option for one share of Common Stock at the date of the applicable Cashless Exercise, as such Black Scholes Value is determined, calculated using the Black Scholes Option Pricing Model obtained from the “OV” function on Bloomberg utilizing (i) an underlying price per share equal to 55% of the Unit price, or \$4.95 per share, (ii) a risk-free interest rate corresponding to the U.S. Treasury rate for a period equal to the remaining term of the Series A Warrant as of the applicable Cashless Exercise, (iii) a strike price equal to the exercise price in effect at the time of the applicable Cashless Exercise, (iv) an expected volatility equal to 135% and (v) a remaining term of such option equal to five years (regardless of the actual remaining term of the Series A Warrant). The Cashless Exercise feature of the Series A Warrants provides for the issuance of a number of shares of Common Stock that increases as the trading market price of the Common Stock decreases, subject to a floor price of \$0.43. If all of the 7,580,040 Series A Warrants that were issued as part of the Units sold in the Offering and part of the Exchange Units issued on August 31, 2015, as described below, were exercised pursuant to a Cashless Exercise and the closing bid price of the 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 was \$4.326 (the Black Scholes Value as of August 28, 2015), then a total of approximately 76.3 million shares of Common Stock would be issued to the holders of such Series A Warrants. The potential for such dilutive exercise of the Series A Warrants may depress the price of Common Stock regardless of the Company’s business performance, and could encourage short selling by market participants, especially if the trading price of the Common Stock begins to decrease.

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, if the Company, at any time prior to the three year anniversary of the Issuance Date:

- 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 (a “Distribution”), at any time after the Issuance Date, then, in each such case, the holders of the Series A Warrants will be entitled to participate in such Distribution to the same extent that the holders would have participated therein if the holder had held the number of shares of Common Stock acquirable upon complete exercise of the Series A Warrants by either paying the exercise price for such shares of Common Stock in cash in full or by exercising the Series A Warrants in full pursuant to a Cashless Exercise, whichever results in the lesser number of shares of Common Stock issued, as of the date immediately preceding the date on which a record is taken for such Distribution, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the participation in such Distribution; or
- 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 (the “Purchase Rights”), then the holders of Series A Warrants will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the holder could have acquired if the holder had held the number of shares of Common Stock acquirable upon complete exercise of the Series A Warrant by either paying the exercise price for such shares of Common Stock in cash in full or by exercising the Series A Warrant in full pursuant to a Cashless Exercise, whichever results in the lesser number of shares of Common Stock issued, as of the date immediately preceding the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights.

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 of 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

Pursuant to the Underwriting Agreement, 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) 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 shall expire on August 25, 2018.



### 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.

In connection with the Offering, the holders of the Series A Preferred Shares agreed to exchange all of the outstanding Series A Preferred Shares for units with the same terms as the Units (the "Exchange Units") such that for every dollar of stated value of Series A Preferred Shares tendered the holders would receive an equivalent value of Exchange Units based on the public offering price of the Units in this offering (the "Unit Exchange"). The warrants that were issued in connection with the issuance of the Series A Preferred Shares would remain outstanding; however, the warrant amounts would be reduced so that the warrants will be exercisable into an aggregate of 84,770 shares of the Company's common stock. The Exchange Units were exempt from registration under the Securities Act pursuant to Section 3(a)(9) thereof.

On August 31, 2015, the Company consummated the Unit Exchange whereby the Company issued a total of 228,343 Units (the "Exchange Units") in exchange for the outstanding Series A Convertible Preferred Stock which were then cancelled. The Exchange Units were exempt from registration under the Securities Act pursuant to Section 3(a)(9) thereof.

### Certificate of Designation for the Series B Convertible Preferred Stock

On August 28, 2015, the Company filed the Certificate of Designation of Preferences, Rights and Limitations of Series B Convertible Preferred Stock (the "Certificate of Designation") with the Delaware Secretary of State. The Certificate of Designation creates the Series B Convertible Preferred Stock and fixes the rights, preferences, powers, restrictions and limitations of the Series B Convertible Preferred Stock. The Series B Convertible Preferred Stock is a component of the Units being offered pursuant to the Offering, Units that could be issued upon exercise by the Underwriter of the Unit Purchase Option described in Item 1.01 above and also part of the Exchange Units described in Item 3.02 above.

Each share of Series B Convertible Preferred Stock is convertible into one share of Common Stock (subject to appropriate adjustment in the event of stock dividends, stock splits, reorganizations or similar events) on the six month anniversary of the Issuance Date or on the date of an Early Separation. In addition, the Series B Convertible Preferred Stock will automatically convert into shares of common stock upon the occurrence of a Fundamental Transaction, subject to the beneficial ownership limitation discussed below. A "Fundamental Transaction" means that (i) the Company shall, directly or indirectly, in one or more related transactions, (1) consolidate or merge with or into (whether or not the Company is the surviving corporation) any other person unless the shareholders of the Company immediately prior to such consolidation or merger continue to hold more than 50% of the outstanding shares of voting stock after such consolidation or merger, or (2) sell, lease, license, assign, transfer, convey or otherwise dispose of all or substantially all of the properties and assets of the Company and its subsidiaries, taken as a whole, to any other person, or (3) allow any other person to make a purchase, tender or exchange offer that is accepted by the holders of more than 50% of the outstanding shares of voting stock of the Company (not including any shares of voting stock of the Company held by the person or persons making or party to, or associated or affiliated with the persons making or party to, such purchase, tender or exchange offer), or (4) consummate a stock or share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with any other person whereby such other person acquires more than 50% of the outstanding shares of voting stock of the Company (not including any shares of voting stock of the Company held by the other person or other persons making or party to, or associated or affiliated with the other persons making or party to, such stock or share purchase agreement or other business combination), or (ii) any "person" or "group" (as these terms are used for purposes of Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the rules and regulations promulgated thereunder), other than a Permitted Holder, is or shall become the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 50% of the aggregate ordinary voting power represented by issued and outstanding voting stock of the Company. The term Permitted Holders means Josh Komberg, Atlantic Partners Alliance and SOK Partners, LLC and each of their respective affiliates.

The Series B Convertible Preferred Stock will not be 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. For purposes of the limitation described in this paragraph, beneficial ownership and all determinations and calculations are determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder.

The Series B Convertible Preferred Stock has no voting rights, except that the holders of shares of a majority of the Series B Convertible Preferred Stock will be required to effect or validate any amendment, alteration or repeal of any of the provisions of the Certificate of Designation that materially adversely affects the powers, preferences or special rights of the Series B Convertible Preferred Stock, whether by merger or consolidation or otherwise, subject to certain exceptions set forth in the Certificate of Designations.

With respect to payment of dividends and distribution of assets upon liquidation or dissolution or winding up of the Company, the Series B Convertible 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 Convertible Preferred Stock.

#### Cancellation of the Company's Series A Preferred Stock.

On August 31, 2015, the Company filed the Termination Certificate for Series A Convertible Preferred Stock (the "Termination Certificate") with the Delaware Secretary of State. After the cancellation of the Series A Convertible Preferred Stock pursuant to the Unit Exchange described in Item 3.02 above, there were no shares of Series A Convertible Preferred Stock outstanding. The Termination Certificate removed the Series A Convertible Preferred Stock from the Company's authorized share capital, rendered the Certificate of Designation of Preferences, Rights and Limitations of Series A Convertible Preferred Stock (the "Series A Certificate of Designation") null and void and eliminated all matters set forth in the Series A Certificate of Designation with respect to the Series A Convertible Preferred Stock from the Certificate of Incorporation of the Company. Pursuant to the Termination Certificate, the authorized shares of Series A Convertible Preferred Stock in the Series A Certificate of Designation resumed the status of authorized but unissued and undesignated shares of preferred stock of the Company.

#### Redemption of Convertible Notes

In connection with the closing of the Offering, \$933,074 aggregate principal amount of Convertible Notes plus interest and a 40% redeemable premium were redeemed for total payments of \$1,548,792. See Note 4. Of this amount, approximately \$167,031 was paid to its affiliates in redemption of their Convertible Notes.

#### Other Events

As a result of the consummation of the Offering and the Unit Exchange on August 31, 2015, the Company issued a total of 1,895,010 Units (1,666,667 Units sold in the Offering and 228,343 Exchange Units issued in the Unit Exchange), 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.

As of such date, the Underwriter had the right to purchase an additional 250,000 Units pursuant to its overallotment option under the Underwriting Agreement and 83,333 Units pursuant to the Unit Purchase Option.

#### *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 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.

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.

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, 2013	385,733	\$ 6.75	461,920	\$ 10.50
Issued	75,683	8.12	161,375	3.81
Expired	(7,879)	23.58	(81,851)	13.54
Exercised	(4,936)	1.76	(40,722)	8.38
Outstanding at December 31, 2014	448,601	\$ 7.51	500,722	\$ 7.95
Issued	73,158	3.14	7,581,722	4.95
Expired	(13,804)	13.71	(1,567)	14.04
Exercised	-	-	-	-
Outstanding at September 30, 2015	507,955	\$ 6.82	8,080,877	\$ 5.14

At September 30, 2015, 504,788 stock options are fully vested and currently exercisable with a weighted average exercise price of \$6.20 and a weighted average remaining term of 6.16 years. At September 30, 2015, 500,837 warrants are fully vested and exercisable. Stock-based compensation recognized for the nine months ending September 2015 and September 2014 was \$320,334 and \$440,117, respectively. The Company has \$38,065 of unrecognized compensation expense related to non-vested stock options that are expected to be recognized over a weighted average period of approximately 5 months.

The following summarizes the status of options and warrants outstanding at September 30, 2015:

	<i>Range of Prices</i>	<i>Shares</i>	<i>Weighted Remaining Life</i>
<b>Options</b>			
\$	0.75	7,333	5.77
\$	3.10	59,681	9.76
\$	3.21	6,232	10.00
\$	3.45	7,245	9.51
\$	4.875	134	7.45
\$	5.25	2,031	6.94
\$	5.625	192,000	7.46
\$	5.925	23,206	7.47
\$	6.00	123,998	6.88
\$	6.50	3,845	9.26
\$	6.60	5,332	6.32
\$	8.25	3,636	9.01
\$	9.9375	3,019	7.79
\$	10.50	3,238	7.79
\$	11.25	13,666	7.35
\$	12.75	67	7.61
\$	13.875	2,160	8.51
\$	17.25	40,261	8.44
\$	18.75	3,334	8.40
\$	20.25	4,940	8.26
\$	21.75	1,336	8.02
\$	23.85	1,260	8.01
		507,955	
<b>Warrants</b>			
\$	0.75	400	0.19
\$	4.95	7,580,040	4.92
\$	6.00	102,857	2.45
\$	9.00	2,666	2.32
\$	9.75	63,227	3.85
\$	11.25	203,801	2.27
\$	12.375	71,257	3.86
\$	12.38	5,557	4.11
\$	13.50	4,444	2.72
\$	14.85	23,612	2.66
\$	20.25	1,481	3.38
\$	24.375	21,535	3.35
		8,080,877	

Stock options and warrants expire on various dates from December 2015 to September 2025.

The shareholders approved an increase in authorized shares to 1,066,067 shares in an annual shareholder meeting held on June 22, 2010 and approved an increase in authorized shares to 2,666,667 shares in a special shareholder meeting held on September 7, 2011.

The shareholders approved an increase in authorized shares to 4,000,000 shares in a special shareholder meeting held on January 15, 2013.

The shareholders approved an amendment of the Company's 2012 Stock Incentive Plan to increase the reserve of shares authorized for issuance to 666,667 shares and to increase the threshold of limitation on certain grants to 266,667 shares on April 15, 2013.

An increase from 4,000,000 to 10,666,667 authorized shares, and an amendment of the Company's 2012 Stock Incentive Plan to increase the reserve of shares authorized for issuance to 1,333,334 shares was approved at the September 10, 2013 annual meeting.

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

#### Stock Options and Warrants Granted by the Company

The following table is the listing of stock options and warrants as of September 30, 2015 by year of grant:

##### Stock Options:

Year	Shares	Price
2011	11,666	\$0.75
2012	126,029	5.25 – 6.00
2013	238,088	4.875 – 25.613
2014	59,013	6.50 – 18.75
2015	73,158	3.10 – 3.45
Total	507,955	\$.75 – 25.613

##### Warrants:

Year	Shares	Price
2010	400	0.75
2011	-	-
2012	69,801	11.25
2013	267,579	6.00 – 14.85
2014	161,375	12.375 – 24.375
2015	7,581,722	\$4.95 – 9.75
Total	8,080,877	\$0.75 – 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, 2015, \$927,663 aggregate principal amount of Convertible Notes, plus accrued and unpaid interest thereto, have been converted into shares of our common stock and \$933,073 aggregate principal amount of Convertible Notes remained 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 September 30, 2015 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Numerator:				
Net loss available in basic and diluted calculation	\$ (1,116,402)	\$ (1,115,221)	\$ (2,527,524)	\$ (4,468,170)
Denominator:				
Weighted average common shares outstanding-basic	3,936,126	2,984,335	3,435,700	2,967,483
Effect of diluted stock options and warrants (1)	-	-	-	-
Weighted average common shares outstanding-basic	3,936,126	2,984,335	3,435,700	2,967,483
Loss per common share basic and diluted	\$ (0.28)	\$ (0.37)	\$ (0.74)	\$ (1.51)

(1) The number of shares underlying options and warrants outstanding as of September 30, 2015 and September 30, 2014 are 8,588,832 and 945,220 respectively. The number of underlying Series B preferred shares outstanding is 1,895,010. The effect of the shares that would be issued upon exercise of such options and warrants has been excluded from the calculation of diluted loss per share because those shares are anti-dilutive.

#### NOTE 6 – INCOME TAXES

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

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

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.

At September 30, 2015, the Company had approximately \$22.3 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 \$12.5 million of gross NOLs to reduce future state taxable income at September 30, 2015, which will expire in years 2022 through 2034 if unused. The Company's net deferred tax assets, which include the NOLs, are subject to a full valuation allowance. At September 30, 2015, the federal and state valuation allowances were \$9.5 million and \$0.4 million, respectively.

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

The components of deferred income taxes at September 30, 2015 and December 31, 2014 are as follows:

	September 30, 2015	December 31, 2014
Deferred Tax Asset:		
Net Operating Loss	\$ 9,307,000	\$ 7,919,000
Other	628,000	1,150,000
Total Deferred Tax Asset	9,935,000	9,069,000
Less Valuation Allowance	9,935,000	9,069,000
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 \$15,900 and \$50,156 for the three and nine months ended September 30, 2015 and was \$15,719 and \$46,321 for the three and nine months ended September 30, 2014 respectively.

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

2015	\$	9,250
2016	\$	38,000
2017	\$	39,000
2018	\$	3,600
2019	\$	-

**NOTE 8 – LIABILITY FOR EQUITY-LINKED FINANCIAL INSTRUMENTS**

The Company adopted ASC 815- Derivatives and Hedging ("ASC 815") on January 1, 2009. ASC 815 mandates a two-step process for evaluating whether an equity-linked financial instrument or embedded feature is indexed to the entity's own stock. It was effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, which was the Company's first quarter of 2009. Many of the warrants issued by the Company contain a strike price adjustment feature, which upon adoption of ASC 815, changed the classification (from equity to liability) and the related accounting for warrants with a \$479,910 estimated fair value of as of January 1, 2009. An adjustment was made to remove \$486,564 from paid-in capital (the cumulative values of the warrants on their grant dates), a positive adjustment of \$6,654 was made to accumulated deficit, representing the gain on valuation from the grant date to January 1, 2009, and \$479,910 was booked as a liability. The warrants issued in 2011 do not contain a strike price adjustment feature and, therefore, are not treated as a liability.

The January 1, 2009 valuation was computed using the Black-Scholes valuation model based upon a 2.5-year expected term, an expected volatility of 63%, an exercise price of \$34.50 per share, a stock price of \$26.25, a zero dividend rate and a 1.37% risk free interest rate. Subsequent to January 1, 2009 these warrants were re-valued at the end of each quarter and a gain or loss was recorded based upon their increase or decrease in value during the quarter. Likewise, new warrants that were issued during 2009 and 2010 were valued, using the Black-Scholes valuation model on their date of grant and an entry was made to reduce paid-in capital and increase the liability for equity-linked financial instruments. These warrants were also re-valued at the end of each quarter based upon their expected life, the stock price, the exercise price, assumed dividend rate, expected volatility and risk free interest rate. A significant reduction in the liability was realized in 2010 primarily due to a reduction from \$37.50 to \$16.50 per share in the underlying stock price. The Company realized a slight increase in the liability for existing warrants during the first quarter of 2012. In 2013 there was a significant decrease in the liability primarily due to current expirations and the amount of warrants reaching expiration in the near term. In 2014, all warrants expired and the liability was reduced to zero.

The inputs to the Black-Scholes model during 2009 through 2014 were as follows:

Stock price	\$3.75	to	\$37.50
Exercise price	\$ .75	to	\$25.613
Expected life (years)	2.0	to	6.5
Expected volatility	59%		
Assumed dividend rate	-%		
Risk-free interest rate	.13%	to	2.97%

The original valuations, annual gain/(loss) and end of year valuations are shown below:

	Initial Value	Annual Gain (Loss)	Value at 12/31/09	2010 Gain (Loss)	Value at 12/31/10	2011 Gain (Loss)	Value at 12/31/2011	2012 Gain (Loss)	Value at 12/31/2012	2013 Gain (Loss)	Value at 12/31/2013	2014 Gain (Loss)	Value at 12/31/2014
January 1, 2009 adoption	\$ 479,910	\$(390,368)	\$ 870,278	\$ 868,772	\$ 1,506	\$(88,290)	\$ 89,796	\$(21,856)	\$ 111,652	\$100,053	\$ 11,599	\$11,599	\$ -
Warrants issued in quarter ended 6/30/2009	169,854	20,847	149,007	147,403	1,604	(4,689)	6,293	6,293	-	-	-	-	-
Warrants issued in quarter ended 9/30/2009	39,743	(738)	40,481	40,419	62	(1,562)	1,624	910	714	714	-	-	-
Warrants issued in quarter ended 12/31/2009	12,698	617	12,081	12,053	28	(724)	752	415	337	337	-	-	-
Subtotal	702,205		1,071,847										
Warrants issued in quarter ended 3/31/2010	25,553			25,014	539	(5,570)	6,109	3,701	2,408	2,408	-	-	-
Warrants issued in quarter ended 6/30/2010	31,332			30,740	592	(6,122)	6,714	6,083	631	631	-	-	-
Warrants issued in quarter ended 9/30/2010	31,506			20,891	10,615	(44,160)	54,775	1,338	53,437	53,437	-	-	-
Total	\$ 790,596	\$(369,642)	\$1,071,847	\$1,145,292	\$14,946	\$(151,117)	\$ 166,063	\$(3,116)	\$ 169,179	\$157,580	\$ 11,599	\$11,599	\$ -

## NOTE 9 – 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.

### *Convertible Note Issuances to Dr. Samuel Herschkowitz and SOK Partners, LLC*

On September 11, 2013, both the Herschkowitz Note and the SOK Note (each as defined below in this Note 9) were converted in full by the holders thereof at \$0.014 per share. The principal and interest balance of the Herschkowitz Note of \$314,484 was converted into 299,509 shares of common stock. The principal and interest balance of the SOK Note of \$680,444 was converted into 648,050 shares of common stock. The collateral that secured these notes was released back to the Company.

The remaining disclosure of this Note 9 provides historical information regarding the Herschkowitz Note, the SOK Note and certain other convertible note issuances.

On March 28, 2012, the Company, entered into a Convertible Note Purchase Agreement, dated as of March 28, 2012 (the “SOK Purchase Agreement”) with SOK Partners, LLC (“SOK Partners”), and an investment partnership. Josh Komberg, who is the Company’s Chief Executive Officer and interim Chairman of the Board, and Dr. Samuel Herschkowitz are affiliates of the manager of SOK Partners and Ricardo Koenigsberger, a director, is a holder of membership units of SOK Partners. Pursuant to the SOK Purchase Agreement, the Company issued a 20.0% convertible note due August 2012 in the principal amount of up to \$600,000. Principal and accrued interest on the note is due and payable on August 28, 2012. The Company’s obligations under the note are secured by the grant of a security interest in substantially all tangible and intangible assets of the Company. The SOK Purchase Agreement and the note included customary events of default that include, among other things, non-payment defaults, covenant defaults, inaccuracy of representations and warranties, cross-defaults to other indebtedness and bankruptcy and insolvency defaults. The occurrence of an event of default would have resulted in the acceleration of the Company’s obligations under the note, and interest rate of twenty-four (24%) percent per annum accrues if the note had not been paid when due.

On March 28, 2012, the Company received an advance of \$84,657 under the note, including a cash advance of \$60,000 net of a prepayment of interest on the first \$300,000 in advances under the note. The holder of the note was entitled to convert the note into shares of common stock of the Company at an initial conversion price per share of \$4.88 per share, subject to adjustment in the event of (1) certain issuances of common stock or convertible securities at a price lower than the conversion price of the note, and (2) recapitalizations, stock splits, reorganizations and similar events. In addition, the Company is required to issue two installments of an equity bonus to SOK Partners in the form of common stock valued at the rate of \$4.88 per share. In March 2012, the Company issued the first equity bonus to SOK Partners, consisting of 61,539 shares of common stock, with a second installment due within five business days after SOK Partners has made aggregate advances under the note of at least \$300,000. In May 2012 the Company issued the second installment consisting of 61,539 shares of common stock subsequent to SOK Partners surpassing the aggregate advances of \$300,000. Until the maturity date of the note, if the Company obtained financing from any other source without the consent of SOK Partners, then the Company is required to issue additional bonus equity in an amount equal to \$600,000 less the aggregate advances on the note made prior to the breach. The principal balance of the SOK Note was \$357,282 as of December 31, 2012.

As long as any amount payable under the SOK Note remained outstanding, SOK Partners or its designee were entitled to appoint a new member to the Company's Board of Directors, to be appointed upon request. Ricardo Koenigsberger was appointed to the Board by SOK Partners on June 25, 2012.

On March 28, 2012, the Company signed an Amended and Restated Note Purchase Agreement, dated as of December 20, 2011, with Dr. Samuel Herschkowitz (as amended, the "Herschkowitz Purchase Agreement"). Pursuant to the Herschkowitz Purchase Agreement, the Company issued a 20.0% convertible note due June 20, 2012 in the principal amount of \$240,000 for previous advances under the note. The Company's obligations under the note were secured by the grant of a security interest in substantially all tangible and intangible assets of the Company. The Company has previously issued to Dr. Herschkowitz an equity bonus consisting of 20,623 shares of common stock. An additional 100,000 shares were transferred to Dr. Herschkowitz effective in April 2012, upon the occurrence of an event of default on the note. On August 13, 2012, the Company entered into a settlement and forbearance agreement described below, relating to the defaults under the Herschkowitz Note and other matters.

As long as any amount payable under the Herschkowitz Note remained outstanding, Dr. Herschkowitz or his designee was entitled to appoint a special advisor to the Company's Board of Directors, to be appointed as a member of the Board upon request. Pursuant to this authority, Josh Kornberg was appointed to the Board on March 9, 2012. In addition, pursuant to this authority, Mr. Koenigsberger was appointed to the Board on June 25, 2012.

Pursuant to a letter dated April 20, 2012, Dr. Herschkowitz advised the Company of the occurrence of numerous events of default under the terms of the Herschkowitz Note and the Herschkowitz Note Purchase Agreement. As a result of such events of default, Dr. Herschkowitz asserted significant rights as a secured creditor of the Company, including his rights as a secured creditor with a security interest in substantially all assets of the Company. Without a settlement relating to the defaults and other matters, Dr. Herschkowitz could have taken action to levy upon the Company's assets, including patents and other intellectual property.

In addition, the Company and Atlantic Partners Alliance LLC ("APA") were parties to a letter agreement dated March 14, 2012, providing APA and its affiliates (including Dr. Herschkowitz and SOK) with rights to avoid dilution relating to additional issuances of equity securities by the Company through July 14, 2012, evidencing the parties' intent that APA would be provided with significant protection against dilution. This protection was in recognition of APA's investments in the Company involving a high degree of risk and the Company's contemplated need for restructuring its indebtedness, which were anticipated to result, and have resulted, in significant dilution. The parties acknowledged that Dr. Herschkowitz and SOK would not have made their historical cash investments in the Company to the same degree had the dilution protection not been provided, and the investments by these parties have enabled the Company to avoid insolvency. Since the respective dates of the Herschkowitz Note Purchase Agreement and the SOK Note Purchase Agreement, the Company has issued in excess of 213,334 shares of common stock to parties other than APA and its affiliates, resulting in significant dilution.

Effective August 15, 2012, the Company entered into a letter agreement with Dr. Herschkowitz, APA and SOK (the "Forbearance Agreement"). Under the Forbearance Agreement, among other things, (i) Dr. Herschkowitz agreed to forbear from asserting his rights as a secured creditor to substantially all of the Company's assets, resulting from the Company's defaults; (ii) the Company issued an aggregate 353,334 shares of common stock to Dr. Herschkowitz and SOK and adjusted the conversion price of their convertible notes to \$1.05 per share from \$4.88 per share, to satisfy the Company's obligations to adjust for dilution under the March 14, 2012 letter agreement; (iii) Dr. Herschkowitz and SOK agreed to extend the maturity of their notes to December 31, 2012; (iv) the Company agreed to pay certain compensation to Dr. Herschkowitz upon the achievement of financial milestones; and (v) Dr. Herschkowitz clarified and waived certain of his rights, including the right to interest at a penalty rate upon default.

In the Forbearance Agreement, Dr. Herschkowitz agreed to forbear from exercising any of his rights arising under the Herschkowitz Note or the Herschkowitz Note Purchase Agreement with respect to the existing defaults against the Company, subject to the limitations set forth in the letter agreement and without releasing or waiving any future breach of the letter agreement. He further agreed to forbear from exercising any rights with respect to events of default, security interests in the collateral and other similar remedies against the Company or his interests under the Herschkowitz Note or the Herschkowitz Note Purchase Agreement until the occurrence of an event of default under the Herschkowitz Note: (a) that does not constitute an existing default; and (b) occurs and accrues after the effective date of the letter agreement.

Dr. Herschkowitz and the Company acknowledged that 100,000 shares of the Company's common stock, constituting the "penalty shares" under the Herschkowitz Note Purchase Agreement, were delivered to Dr. Herschkowitz in April 2012 as provided in the Herschkowitz Note Purchase Agreement upon an event of default. Notwithstanding a provision that would have increased the rate of interest from 20% to 24% upon an event of default, Dr. Herschkowitz agreed that the Company would not pay the increased rate of interest but would accrue interest at 20% until a subsequent event of default.

Under the Forbearance Agreement, the Herschkowitz Note and the SOK Note were amended as follows: (i) the due dates of the notes were extended to December 31, 2012 from the previous due dates of June 20, 2012 and August 28, 2012, respectively; (ii) Dr. Herschkowitz will release his security agreement after payment of all currently outstanding promissory notes to parties other than SOK; and (iii) the Herschkowitz Note was amended to add certain events of default relating to judgments against the Company or other creditors taking action with respect to the collateral. In consideration of the extension additional milestone fees were revised as described below. Pursuant to a Forbearance and Settlement Agreement with these parties dated August 15, 2012, as subsequently amended, the due date of these notes were extended to August 31, 2013.

APA and its affiliates agreed to terminate the letter agreement regarding dilution dated March 14, 2012. In consideration of the various provisions of the letter agreement and in recognition of the understanding of the parties regarding dilution and the agreements of APA and its affiliates to forbear and to extend the due dates of the notes, the Company (i) issued 176,667 shares to Dr. Herschkowitz, (ii) issued 176,667 shares to SOK, and (iii) the conversion price of the Herschkowitz Note and the SOK Note, respectively was changed to \$1.05 per share from \$4.88 per share.

In the event that the Company consummated the following series of transactions on or prior to June 30, 2013: (i) a merger or similar transaction with a public shell company, (ii) raising between \$2 million and \$4 million through an offering of the securities of the public shell company concurrent with or subsequent to the shell merger; and (iii) listing the Company's shares on NASDAQ pursuant to an underwritten offering of the Company's securities resulting in gross proceeds of between \$5 million and \$30 million, then the Company would have been required to deliver to Dr. Herschkowitz the following compensation: (A) \$75,000 upon consummating the shell merger, (B) \$150,000 upon consummating the qualifying financing round; and (C) 3% of the gross proceeds of the NASDAQ underwriting, which payment shall under no circumstances be less than \$200,000 or greater than \$1,000,000. The Company was also required to reimburse Dr. Herschkowitz at his actual out-of-pocket cost for reasonable expenses incurred in connection with the shell transactions, with a maximum limit of \$10,000 for such expenses.

In connection with the extension of the due date for the Herschkowitz Note and the SOK Note on March 6, 2013, the milestone fees were revised. The following fees were payable to Dr. Herschkowitz in the event that the Company consummates the following series of transactions on or prior to December 31, 2013: (i) financing raising not less than \$1 million, compensation of \$75,000; (ii) a going private transaction, compensation of \$200,000; and (iii) 3% of the gross proceeds of the NASDAQ underwriting, which payment shall under no circumstances be less than \$200,000 or greater than \$3,000,000. In May 2013 Dr. Herschkowitz received \$75,000 after the Company surpassed raising \$1 million. On January 6, 2014 a side-letter to the forbearance agreement was signed between Dr. Herschkowitz and the Company. Skyline agreed that the private offering for its Series A Convertible Preferred Stock, plus any future offering of any class of its preferred stock, shall be considered a NASDAQ underwriting for purposes of Section 8(e) of the Forbearance Agreement. As such Dr. Herschkowitz received \$200,000 or 3% of the gross proceeds of any such offering per the terms of Section 8(e) of the Forbearance Agreement. In addition, any listing of the Company's shares on the New York Stock Exchange shall qualify as a NASDAQ underwriting under the Forbearance Agreement. For the avoidance of doubt, the payment in the aggregate for all offerings qualifying as a NASDAQ underwriting shall under no circumstances be less than \$200,000 or greater than \$1,000,000. Section 8(e) of the Forbearance Agreement will apply to any transactions consummated by Skyline on or before June 30, 2014.

As a result of the transactions under the Forbearance Agreement and other investments, Dr. Herschkowitz, SOK and their affiliates currently own shares of common stock and securities representing beneficial ownership of approximately 49% of the Company's outstanding common stock, giving such parties significant control over election of the Board of Directors and other matters.

On November 6, 2012, the Company issued and sold convertible promissory notes in the total principal amount of \$156,243 to Dr. Herschkowitz and certain of his assignees. The Company issued to these parties an aggregate 20,833 shares of common stock in consideration of placement of the notes. The notes bear interest at a rate of 20% per annum and are secured by a security interest in the Company's accounts receivable, patents and certain patent rights and are convertible into common stock upon certain mergers or other fundamental transactions at a conversion price based on the trading price prior to the transaction. The proceeds from this transaction were used to pay off approximately \$155,000 in principal amount of secured indebtedness. Such notes were converted in April 2013 into 13,889 shares of common stock at \$7.50 per share.

In December 2013 the Company received an additional \$300,000 in debt financing from SOK Partners under a non-convertible grid note due February 28, 2014, with 10% interest based on a 365 day year. Dr. Herschkowitz received 10% of the gross proceeds in advance, and the Company received \$250,000 in three tranches in December 2013. In January 2014, the Company received an additional \$20,000 from SOK Partners completing the grid note maximum. Should the company default on the note the interest rate will increase to 20% interest based on a 365 day year. In February 2014, the Company wired \$305,589.04 to SOK Partners in complete payment of the grid note, including interest.

In connection with the sale of the Preferred Shares on February 4, 2014 as described in Note 3, Josh Komberg, our CEO, was one of the Purchasers. Mr. Komberg purchased 19,231 Preferred Shares for a purchase price of \$25,000 and received warrants to purchase 52 shares of common stock. As described in Note 1 under "Recent Developments," in connection with the Company's proposed offering of Units, the holders of a majority of the Preferred Shares, including Mr. Komberg, have, as of July 20, 2015, agreed to exchange all of the outstanding Preferred Shares for units with the same terms as the Units (the "Exchange Units").

On July 23, 2014, the Company entered into the a securities purchase agreement pursuant to which the Company agreed to issue and sell convertible notes and warrants to SOK, under the terms described in Note 4 of this Report. SOK's note (the "SOK Note") had an original principal amount of \$122,196, and the warrant issued to SOK (the "SOK Warrant") was to initially acquire up to 5,431 additional shares of Common Stock for an aggregate purchase price of \$100,000 (with a reduced principal amount as described below representing an approximately 8.7% original issue discount). 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 SOK Note was reduced to \$108,696 and the number of SOK Warrants was reduced to 4,831 shares. As described in Note 4 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. During September 2015, the Company redeemed all of the convertible notes for approximately \$1.5 million to which approximately \$167,031 was paid to the affiliates.

**Note 10 – 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 2015 and 2014, we matched 100% of the employee's contribution up to 4% of their earnings. The employer contribution was \$7,021 and \$21,735 for the three and nine months ending September 30, 2015 and was \$14,102 and \$29,596 for the three and nine months ending September 30, 2014, respectively.

**Note 11 – Commitments and Contingencies**

*Darryl C. Demaray, Brady P. Farrell, Christopher S. Howell and Ronald W. Walters v. Skyline Medical Inc.* On April 29, 2015, the plaintiffs filed an action in District Court in Dakota County, Minnesota against the Company. The four plaintiffs were former employees of the Company who were engaged as a Regional Sales Manager. The Company has attended mediation and reached a settlement agreement with all of the parties. In total, including legal and other fees, the Company has agreed to pay \$271,236.

**Note 12 – Supplemental Cash Flow Data**

Cash payments for interest were \$226,960 and \$237,121 for the three and nine months ended September 30, 2015 and were \$21,627 and \$43,233 for the three and nine months ended September 30, 2014.

**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. 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.

Since inception, we have been unprofitable. We incurred net losses of approximately \$1.1 million and \$2.5 million for the three and nine months ended September 30, 2015, and \$1.1 million and \$4.5 million for the three months and nine months ended September 30, 2014, respectively. As of September 30, 2015 and September 30, 2014, we had an accumulated deficit of approximately \$38.2 million and \$33.2 million, respectively. We received approval from the FDA in April 2009 to commence sales and marketing activities of the STREAMWAY FMS system and shipped the first system in 2009. However, there was no significant revenue prior to 2011, primarily due to lack of funds to build and ship the product.

In the first quarter of 2014, the Company commenced sales of an updated version of the STREAMWAY 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-one STREAMWAY 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 kits necessary to effectively operate the units. Once the trial period has expired the unit is either returned to the Company or purchased by the customer. If purchased, at that time, the Company invoices the customer based upon a contracted price negotiated prior to the trial.

We have never generated sufficient revenues to fund our capital requirements. We have funded our operations through a variety of debt and equity instruments. See “Liquidity and Capital Resources – Historical Financing” below. Our future cash requirements and the adequacy of available funds depend on our ability to sell our products. See “Plan of Financing; Going Concern Qualification” below.

As a company still in development, 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 \$86,000 of revenue in the three months ended September 30, 2015 compared to \$397,000 in revenue in the three months ended September 30, 2014. The Company recognized \$471,000 of revenue in the nine months ended September 30, 2015 compared to \$786,000 in revenue in the nine months ended September 30, 2014. The reduction resulted from a reduced sales staff and associated sales efforts as a result of the cash shortfall we had been experiencing. The revenue in the first nine months of 2015 included the sale of 15 STREAMWAY FMS systems plus disposable sales totaling \$219,000.

*Cost of sales.* Cost of sales was \$20,000 in the three months ended September 30, 2015 and \$135,000 in the three months ended September 30, 2014. Cost of sales was \$199,000 in the nine months ended September 30, 2015 and \$264,000 in the nine months ended September 30, 2014. The gross profit margin was approximately 58% in the nine months ended September 30, 2015 compared to 66% in the nine months ended September 30, 2014. Our margins were reduced in the first nine 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 during the fourth quarter (the three months ended September 30, 2015 had a gross margin of 77%, which is more in line with our expected margins) 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 \$124,000 from the three months ended September 30, 2015 compared to September 30, 2014. G&A expenses decreased by \$1,658,000 from the nine months ended September 30, 2015 compared to September 30, 2014. The three month increase was primarily due to a \$475,000 difference in convertible note expenses as a result of the redemption of the convertible notes at 140% of the principal amount, and penalty fees and interest for payroll taxes at approximately \$29,000. Offsetting reductions were due to a \$262,000 favorable difference in legal fees, \$65,000 less in finder's fees and a \$52,000 decrease in stock based compensation. The nine month decrease was primarily due to \$745,000 of bonuses and associated payroll taxes waived by the Company's executives, \$530,000 in reduced legal fees, \$334,000 less in miscellaneous expenses (the Marshall Ryan settlement was expensed in 2014), \$284,000 in reduced finder's fees, \$292,000 less in investor relations, stock based compensation and investors stock compensation and \$60,000 saved in recruiting fees. Offsetting increases were a \$475,000 difference in convertible note expenses as a result of the redemption of the convertible notes at 140% of the principal amount, \$124,000 in payroll tax penalties and interest and a \$50,000 increase in corporate insurance premiums.

*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 \$20,000 in the three months ended September 30, 2015 compared to the three months ended September 30, 2014. The three month increase was due to \$42,000 in bonuses and \$6,000 in resource engineering; offset by \$7,000 in reduced consulting fees, \$9,000 less for shipping and postage and a \$13,000 reduction for research and development. Operations expense decreased by \$365,000 in the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014. Payroll and payroll taxes were reduced by \$43,000, prior bonuses were waived saving \$108,000, research and development was reduced by \$142,000, consulting expenses were lowered by \$40,000, shipping and postage decreased by \$18,000 and stock based compensation was reduced by \$14,000.

*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 \$258,000 in the three months ended September 30, 2015 compared to the three months ended September 30, 2014. The three month decrease was due to a \$46,000 reduction from a difference in salaries, benefits and taxes from reducing the sales managerial staff in 2015; \$21,000 from a reduction in travel expense due to the reduced staff size; \$66,000 from a reduction in commissions and \$115,000 from lower bonuses. Sales expense decreased by \$410,000 in the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014. The nine month decrease was due to a \$150,000 reduction in salaries, benefits and taxes due to less sales managerial staff; a \$71,000 reduction in travel expense due to the reduced staff size; \$58,000 less in commissions; \$97,000 from lower bonuses; \$15,000 less in marketing expenses; \$23,000 less in trade show costs and \$16,000 less in public relations expense. Offsetting these reductions was a \$51,000 increase in stock compensation expense.

*Interest expense.* Interest decreased by \$80,000 in the three months ended September 30, 2015 compared to the three months ended September 30, 2014, due to less amortization of debt discounts and interest for our convertible notes issued in the third quarter of 2014 that extend into 2015. Interest increased by \$230,000 in the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, due to amortization of debt discounts and interest for our convertible notes issued in the third quarter of 2014 that extend into 2015.

The gain on revaluation of equity-linked financial instruments reflected zero gain or loss in the nine months ended September 30, 2015 compared to a gain of \$11,600 in the nine months ended September 30, 2014. The result in the current period was from all warrants having expired previously.

## **Liquidity and Capital Resources**

### **Cash Flows**

Net cash used in operating activities was \$4,637,000 for the nine months ended September 30, 2015 compared with net cash used of \$3,143,000 for the 2014 period. The \$1,494,000 increase in cash used in operating activities was due to significant payments reducing accounts payable and accrued expenses. The reductions in accrued expenses were for the following payment: premium paid plus interest to redeem convertible notes as agreed with the holders to induce the redemption at a rate of 140% of principal: \$616,000; past due payrolls and taxes for employees: \$1,420,000; and past due amounts under agreed upon legal settlements, including interest and penalties: \$916,000. In addition, the Company decreased payables by paying an aggregate \$966,000 in cost of goods to vendors for past due amounts for production of our product and in past due professional fees.

Cash flows used in investing activities was \$23,700 for the nine months ended September 30, 2015 and \$122,300 for the nine months ended September 30, 2014. Due to cash restrictions there were no additional purchases of fixed assets and minimal payments of fees related to patents.

Net cash provided by financing activities was \$12,400,000 for the nine months ended September 30, 2015 compared to net cash provided of \$3,400,000 for the nine months ended September 30, 2014. In the second quarter of 2015 the Company received cash for two convertible notes totaling \$250,000. The Company completed a public offering on August 31, 2015 raising a net \$13,555,003. This was partially offset by redeeming convertible notes with a remaining principal amount of \$933,074 not including accrued interest and redemption premiums.

#### ***Capital Resources***

We had a cash balance of \$7,733,000 as of September 30, 2015. Since our inception, we have incurred significant losses. As of September 30, 2015, we had an accumulated deficit of approximately \$38,229,000.

From inception to September 30, 2015, our operations have been funded through a bank loan and private convertible debt of approximately \$5,685,000 and equity investments totaling approximately \$22,723,000. See "Historical Financing" below.

In the first nine months of 2015, we recognized \$471,000 in revenues. Our product sales since the end of the third quarter have resulted in approximately \$73,000 in revenues.

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

Since our inception, we have incurred significant losses, and our accumulated deficit was approximately \$38.2 million as of September 30, 2015. 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). We currently have no outstanding bank debt and no secured indebtedness.

We received \$471,000 in revenues from product sales in the first three quarters of 2015; however, our operating losses and negative cash flow have continued, including operating cash flows of a negative \$5,131,000 in the first three quarters of 2015, compared to a negative \$3,143,000 in the first three quarters of 2014. We anticipate that we will continue to incur net losses at least through 2015. We received a net \$13,555,003 on August 31, 2015 as a result of our public offering. There was an immediate cash spend over the next thirty days of approximately \$5,800,000 (see Cash Flow). Our cash balance was \$7,733,000 as of September 30, 2015.

As we manage our cash resources, our cash balance continues to fluctuate depending on the timing of receipts of product revenues and continued financing transactions, as well as our need to pay for essential services and supplies to stay in operation. Our expenses are approximately \$250,000 per month. Although we are attempting to curtail our expenses, there is no guarantee that we will be able to reduce these expenses significantly, and expenses for some periods may be higher as we prepare our product for broader sales, increase our sales efforts and maintain adequate inventories.

Our balance of debts, liabilities and cash obligations that are either considered past due or that will become due in calendar 2015 was approximately \$2,602,104 as of September 30, 2015 and has continued to decrease.

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 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. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### ***Historical Financing***

We have funded our operations through a combination of debt and equity instruments. We funded our early operations through a bank loan of \$41,400, an equity investment of \$68,000 from the Wisconsin Rural Enterprise Fund ("WREF") and \$30,000 in early equity investment from several individuals. WREF had also previously held debt in the form of three loans of \$18,000, \$12,500 and \$25,000. In December 2006, WREF converted two of the loans totaling \$37,500 into 43,000 shares of our common stock. In August 2006, we secured a \$10,000 convertible loan from one of our vendors. In February 2007, we obtained \$4,000 in officer and director loans and in March 2007, we arranged a \$100,000 convertible note from two private investors. In July 2007, we obtained a convertible bridge loan of \$170,000. In June 2008, we paid off the remaining \$18,000 loan from WREF and raised approximately \$1.6 million through a private common stock offering completed in October 2008. The \$170,000 convertible bridge loan and the \$4,000 in officer and director loans were converted into shares of our common stock in October 2009. During 2009, we raised an additional \$725,000 in a private placement of stock units and/or convertible debt, with each stock or debt unit consisting of, or converting into, respectively, one share of our common stock, and a warrant to purchase one share of our common stock at \$.65 per share.

In 2010, we raised approximately \$229,000 in equity and \$605,000 in convertible debt.

In 2011, we raised \$1,386,000 in equity and \$525,000 in convertible debt, including the convertible debt investment by Dr. Samuel Herschkowitz described under Note 9 to the Financial Statements.

In 2012, the Company raised \$696,000 in equity and \$529,000 in convertible debt, and \$818,000 of debt was converted into equity. This convertible debt included advances on a convertible promissory note from SOK Partners, LLC, and an investment fund affiliated with one of our directors, for approximately \$357,000. See Note 9 to the Financial Statements. On November 6, 2012, we entered into additional note purchase agreements with Dr. Samuel Herschkowitz, pursuant to which on the same date, we issued and sold convertible promissory notes in the total principal amount of \$156,243 to Dr. Herschkowitz and certain of his assignees. Pursuant to the note purchase agreements, we issued to these parties an aggregate 20,833 shares of common stock in consideration of placement of the notes. The convertible notes bore interest at a rate of 20% per annum and were secured by a security interest in the Company's accounts receivable, patents and certain patent rights and are convertible into common stock upon certain mergers or other fundamental transactions at a conversion price based on the trading price prior to the transaction. The proceeds from this financing were used to pay off approximately \$155,000 in principal amount of secured indebtedness.

The Company also raised an additional \$300,000 from the sale of convertible notes in January 2013. Also, in January and March 2013, the Company raised an additional \$500,000 from a second private sale of equity securities. In addition, in March 2013, the Company completed a further private sale of common stock for an aggregate purchase price of \$500,000. In June 2013, the Company raised an additional \$1,000,000 from the sale of convertible notes. In the third quarter we also borrowed the remaining \$243,000 principal amount of our convertible note payable to SOK Partners, LLC. During the third quarter of 2013, the holders of convertible notes, including Dr. Samuel Herschkowitz and SOK Partners, LLC, converted \$1,506,000 of outstanding debt, including principal and interest, into equity. The Company converted the promissory notes totaling \$314,484 and \$680,444, respectively, including principal and interest, on September 11, 2013 for 299,509 and 648,043 shares, respectively, at \$1.05 per share. Also during the third quarter of 2013, we raised approximately \$1,044,000 through the cash exercise of warrants by investors who were offered a reduction in the exercise price in connection with the exercise. In December 2013 the Company raised \$280,000 in the form of a short term non-convertible note with 10% interest based on a 365 day year from SOK Partners, LLC. In January 2014 an additional \$20,000 was raised and added to the original note to SOK Partners, LLC. Josh Komberg the CEO, is a 50% managing partner in SOK Partners, LLC.

*Series A Preferred Stock.* On February 4, 2014, (the “Closing Date”) we raised \$2,055,000 in gross proceeds from a private placement of Series A Convertible Preferred Stock, par value \$0.01 (the “Preferred Shares”) pursuant to a Securities Purchase Agreement with certain investors (the “Purchasers”) purchased 20,550 Preferred Shares, and warrants (the “Warrants”) initially to acquire an aggregate of approximately 21,334 shares of Common Stock. The Warrants were initially exercisable at an exercise price of \$24.38 per share and expire after five years from the Closing Date. Since the Common Stock was not listed on the Nasdaq Stock Market, the New York Stock Exchange, or the NYSE MKT within 180 days of the Closing Date, as such the Company was required to issued additional Warrants to purchase additional shares of Common Stock, equal to 30% of the shares of Common Stock which the Preferred Shares each Purchaser purchased are convertible into.

The Preferred Shares were initially convertible at the option of the holder into the number of shares of Common Stock determined by dividing the stated value of the Preferred Shares being converted by the conversion price of \$19.50, reduced in July 2015 to \$9.75 per share, subject to adjustment for stock splits, reverse stock splits and similar recapitalization events. The Preferred Shares were eligible to vote with the Common Stock on an as-converted basis, but only to the extent that the Preferred Shares were eligible for conversion without exceeding the Beneficial Ownership Limitation. The Preferred Shares were entitled to receive dividends on a pari passu basis with the Common Stock, when, and if declared. Upon any liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary (a “Liquidation”), after the satisfaction in full of the debts of the Company and the payment of any liquidation preference owed to the holders of shares of Common Stock ranking prior to the Preferred Shares upon liquidation, the holders of the Preferred Shares were entitled to receive, prior and in preference to the holders of any junior securities, an amount equal to \$2,055,000 times 1.2, plus all declared but unpaid dividends.

The Warrants are exercisable on any day on or after the date of issuance, and have a term of five years. However, a holder is prohibited from exercising a Warrant if, as a result of such exercise, the holder, together with its affiliates, would exceed Certain limitations on conversion so that the holder will not own more than 4.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock issuable upon exercise of the Warrants held by the applicable holder, with the percentage subject to increase in certain circumstances. As a result of not reaching certain sales goals by January 2015, the number of shares of Common Stock for which such Warrant may be exercised were increased 2.5 times under the terms of the Warrants; these additional Warrants were subsequently canceled as described below.

On August 31, 2015, the Company completed the Unit Exchange as described in Note 3 under “Stockholders’ Deficit, Stock Options and Warrants”. The Company filed the Termination Certificate for Series A Convertible Preferred Stock (the “Termination Certificate”) with the Delaware Secretary of State. After the cancellation of the Series A Convertible Preferred Stock pursuant to the Unit Exchange, \$2,055,000 divided by the Unit price of \$9.00 Per Unit equaling 228,334 Units, there were no shares of Series A Convertible Preferred Stock outstanding. The Termination Certificate removed the Series A Convertible Preferred Stock from the Company’s authorized share capital, rendered the Certificate of Designation of Preferences, Rights and Limitations of Series A Convertible Preferred Stock (the “Series A Certificate of Designation”) null and void and eliminated all matters set forth in the Series A Certificate of Designation with respect to the Series A Convertible Preferred Stock from the Certificate of Incorporation of the Company. Pursuant to the Termination Certificate, the authorized shares of Series A Convertible Preferred Stock in the Series A Certificate of Designation resumed the status of authorized but unissued and undesignated shares of preferred stock of the Company.

#### *2014 and 2015 Sales of Convertible Notes and Warrants.*

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 the terms of the registration rights agreements related to the 2014 Convertible Notes, the Company was required to file a registration statement to cover the resale of the conversion shares and warrant shares related to the 2014 Convertible Notes (the “**Resale Registration Statement**”) and have the Resale Registration Statement declared effective by the Securities and Exchange Commission (the “**SEC**”). The Company filed the Resale Registration Statement on August 25, 2014 (as amended on September 8, 2014), and the Resale Registration Statement was declared effective on September 8, 2014. As a result of the Company filing the Resale Registration Statement and the SEC declaring it effective within the time periods specified in such registration rights agreements, (1) the outstanding principal amount of the Notes was reduced from \$1,802,395 to \$1,603,270 (without any cash payment by the Company) and any accrued and unpaid interest with respect to such portion of the principal amount of the Notes that was extinguished was similarly extinguished, and (2) the number of shares of Common Stock issuable upon the exercise of the related Warrants was reduced from 80,106 shares of Common Stock to 71,257 shares of Common Stock (without any cash payment by the Company). In connection with this reduction, the principal amount of the Convertible Note issued to SOK Partners, LLC was reduced to \$108,695 and the number of related warrants was reduced to 4,831 shares.

On April 8, 2015, the Company entered into a securities purchase agreement with a private investor, pursuant to which the Company agreed to issue and sell (i) a senior convertible note, in an original principal amount of \$125,000 (the “April 2015 Note”), which shall be convertible into a certain amount of shares of Common Stock, in accordance with the terms of the April 2015 Note, for an aggregate purchase price of \$100,000 (representing an approximately 20% original issue discount. The terms of the April 2015 Note are substantially similar to those of the 2014 Convertible Notes, except that the 2015 Convertible Notes mature on April 7, 2016.

On May 8, 2015, the Company entered into a securities purchase agreement with a private investor, pursuant to which the Company agreed to issue and sell (i) a senior convertible note, in an original principal amount of \$150,000 (the “May 2015 Note”), which shall be convertible into a certain amount of shares of Common Stock, in accordance with the terms of the May 2015 Note, for an aggregate purchase price of \$150,000. The terms of the May 2015 Note are substantially similar to those of the 2014 Convertible Notes.

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 September 30, 2015, none of the Convertible Notes were outstanding.

The Warrants issued to the purchasers of the 2014 Convertible Notes are exercisable on any day on or after the date of issuance and have an exercise price of \$12.38 per share, subject to adjustment, and a term of five years from the date of issuance. The holders, will not be entitled, by virtue of being holders of the Warrants, to vote, to consent, to receive dividends, to receive notice as shareholders with respect to any meeting of shareholders for the election of the Company’s directors or any other matter, or to exercise any rights whatsoever as our shareholders. If, however, the Company decides to declare a dividend or make distributions of its assets (the “Distribution”), the holders will be entitled to such Distribution to the same extent that the holder’s would have participated therein if the holder’s had held the number of share of Common Stock acquirable upon complete exercise of the Warrants.

At any time commencing on the earliest to occur of (x) the public disclosure of any change of control, (y) the consummation of any change of control and (z) the holder first becoming aware of any change of control through the date that is ninety (90) days after the public disclosure of the consummation of such change of control by the Company pursuant to a Current Report on Form 8-K filed with the SEC, the Company or the successor entity (as the case may be) may be required to purchase the Warrants from the holder in an amount equal to the Black Scholes Value (as defined in the Warrants).

**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.

Because we did not have significant historical trading data on our common stock in 2009, we relied upon trading data from a composite of 10 medical companies traded on major exchanges and 15 medical companies quoted by the OTC Bulletin Board to help us arrive at expectations as to volatility of our own stock when broader public trading commences. In 2013 the Company experienced significant exercises of options and warrants. The options raised \$6,500 in capital. Warrants exercised for cash produced \$1,330,000 of capital. In the case of options and warrants issued to consultants and investors we used the legal term of the option/warrant as the estimated term unless there was a compelling reason to use a shorter term. The measurement date for employee and non-employee options and warrants is the grant date of the option or warrant. The vesting period for options that contain service conditions is based upon management's best estimate as to when the applicable service condition will be achieved. Changes in the assumptions can materially affect the estimate of fair value of stock-based compensation and, consequently, the related expense recognized. The assumptions we use in calculating the fair value of stock-based payment awards represent our best estimates, which involve inherent uncertainties and the application of management's judgment. As a result, if factors change and we use different assumptions, our equity-based compensation expense could be materially different in the future. See "Note 3 – Stockholders' Deficit, Stock Options and Warrants" in Notes to Financial Statements of this Quarterly Report on Form 10-Q for additional information.

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

Since our common stock has no significant public trading history in 2009, 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.

#### **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, 2014. 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 Chief Executive Officer and Chief Financial Officer, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

With the participation of the Chief Executive Officer and the Chief Financial Officer, management has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2015.

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 September 30, 2015 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

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

On July 17, 2014, Skyline Medical Inc. (the "Company") and a stockholder entered into a settlement agreement and release (the "Settlement Agreement") with Marshall Ryan ("Ryan") and a company related to Ryan (together, the "Plaintiffs"). The settlement relates to a previously disclosed lawsuit by the Plaintiffs initiated in March 2014. Ryan is an engineer who previously worked with the Company on design of certain of the Company's products. The lawsuit alleged among other things, breach of a 2008 consulting agreement, a 2006 manufacturing agreement and a 2006 supply agreement among the Plaintiffs and the Company, various claims of fraud and negligent misrepresentation, and breach of the duty of good faith and fair dealing.

Under the Settlement Agreement, the parties have agreed that the lawsuit will be dismissed. The Company has agreed to pay Ryan an aggregate of \$500,000 in various cash installments through April 25, 2015, including \$200,000 in installments that were paid during 2014. The Settlement Agreement, among other things, extinguishes any prior claims of Plaintiffs for royalties or other alleged rights to payments under their prior agreements with the Company.

The Settlement Agreement also contains mutual releases covering claims other than a breach of the Settlement Agreement. In the Settlement Agreement, Ryan fully, unconditionally and irrevocably affirms and ratifies the Company's rights to Ryan's prior patent assignments, and disclaims any right, title or interest in the Company's Streamway product including any claims to royalties both past and future. In addition, the parties confirmed that the patents related to the Streamway product belong exclusively to Skyline and remain in full force and effect.

On September 1, 2015 the Company paid the settlement in full remitting \$442,893.15 to Marshall Ryan, including \$92,893 in interest and penalties.

Darryl C. Demaray, Brady P. Farrell, Christopher S. Howell and Ronald W. Walters v. Skyline Medical Inc. On April 29, 2015, the plaintiffs filed an action in District Court in Dakota County, Minnesota against the Company. The four plaintiffs are current or former employees of the Company who were or are each engaged as a Regional Sales Manager. The action alleges, among other things, breach of employment agreements, failure to pay certain cash and non-cash compensation, negligent misrepresentation and unjust enrichment. The plaintiffs are seeking the amounts they claim are due, in addition to, among other things, certain penalties and certain attorney's fees and costs. The Company's records indicate that certain amounts are owing to these individuals. The Company has attended mediation and reached a settlement agreement with all of the parties. In total, including legal and other fees, the Company has agreed to pay \$271,236.

## 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, 2014. 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, 2014 with the exception of the amendment and replacement of the first risk factor below and the addition of the second risk factor below.*

***We will require additional financing to sustain our operations, and if adequate financing is not available, we may be forced to go out of business. Such financing will be dilutive and feature restricted terms. 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 have not achieved profitability and anticipate that we will continue to incur net losses at least through the first quarter of 2016. We had revenues of \$471,000 in 2015, but as a result of our continued losses, our cash resources have not been sufficient to sustain our operations, and we have continued to depend on financing transactions to generate sufficient cash to stay in operation. As we manage our cash resources, our cash balance continues to fluctuate depending on the timing of receipt of product revenues and the proceeds of continued financing transactions, as well as the timing of our needs to pay for essential services and supplies to stay in operation. In April and May 2015 we raised gross proceeds of \$100,000 and \$150,000, respectively, from another private sale of convertible notes. These proceeds were used almost immediately to pay essential resources in order to stay in operation. On August 31, 2015 the Company received \$13,555,003, net cash, as a result of our public offering. The cash balance in our account as of September 30, 2015 was approximately \$7,700,000. Our balance of debts, liabilities and cash obligations that are either considered past due or that will become due in calendar 2015 was approximately \$2,602,105 as of September 30, 2015 and has continued to decrease. We are currently incurring operating expenses of approximately \$250,000 per month. Although we are attempting to curtail our expenses, there is no guarantee that we will be able to reduce these expenses significantly, and expenses for some periods may be higher as we prepare our product for broader sales, increase our sales efforts and maintain adequate inventories.

As 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. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources."

***The Series A Warrants contain a cashless exercise feature with the potential for a higher dilutive issuance of Common Stock, which could adversely affect the value of the Common Stock.***

The Series A Warrants, described in Note 3 under "Stockholders' Deficit, Stock Options and Warrants", can be exercised starting February 2016. The Series A Warrants contain a Cashless Exercise Feature that provides for the issuance of a number of shares of Common Stock that increases as the trading market price of the Common Stock decreases, subject to a floor price of \$0.43. If all of the 7,580,040 Series A Warrants that were issued as part of the Units sold in the Offering and part of the Exchange Units issued on August 31, 2015, as described below, were exercised pursuant to a Cashless Exercise and the closing bid price of the 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 \$4.326 (the Black Scholes Value as of August 28, 2015), then a total of approximately 76.3 million shares of Common Stock would be issued to the holders of such Series A Warrants. The potential for such dilutive exercise of the Series A Warrants may depress the price of Common Stock regardless of the Company's business performance, and could encourage short selling by market participants, especially if the trading price of the Common Stock begins to decrease."

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

The following is a summary of our transactions since January 1, 2015 involving sales of our securities that were not registered under the Securities Act:

In January 2015, the Company released 13,700 shares of common stock from the escrow account pursuant to a settlement agreement. Unless otherwise specified above, the Company believes that all of the above transactions were transactions not involving any public offering within the meaning of Section 4(2) of the Securities Act, since (a) each of the transactions involved the offering of such securities to a substantially limited number of persons; (b) each person took the securities as an investment for his/her/its own account and not with a view to distribution; (c) each person had access to information equivalent to that which would be included in a registration statement on the applicable form under the Securities Act; and (d) each person had knowledge and experience in business and financial matters to understand the merits and risk of the investment; therefore no registration statement needed to be in effect prior to such issuances.

On August 31, 2015, the Company consummated the Unit Exchange described in Note 3 under "Unit Exchange", whereby the Company issued a total of 228,343 Units (the "Exchange Units") in exchange for the outstanding Series A Preferred Shares, which were then cancelled. The Exchange Units were exempt from registration under the Securities Act pursuant to Section 3(a)(9) thereof.

**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: November 13, 2015

By: /s/ Joshua Komberg  
Joshua Komberg  
President and Chief Executive Officer

Date: November 13, 2015

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

## EXHIBIT INDEX

### SKYLINE MEDICAL INC.

Form 10-Q

The quarterly period ended September 30, 2015

Exhibit No.	Description
3.1	Form Certificate of Designation of Preferences, Rights and Limitations of Series B Convertible Preferred Stock (1)
3.2	Form of Termination Certificate for Series A Convertible Preferred Stock (2)
4.1	Form of Unit Agreement (including form of Unit) by and between Skyline Medical Inc. and Corporate Stock Transfer, Inc. (3)
4.2	Form of Series A Warrant Agency Agreement by and Between Skyline Medical Inc. and Corporate Stock Transfer, Inc. and Form of Warrant Certificate (4)
4.3	Form of Unit Purchase Option (5)
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 August 20, 2015 as Exhibit 3.6 to the Company’s Registration Statement on Form S-1 (File No. 333-198962) and incorporated herein by reference.
- (2) Filed on August 31, 2015 as Exhibit 3.2 to our Current Report on Form 8-K and incorporated herein by reference.
- (3) Filed on August 20, 2015 as Exhibit 4.18 to the Company’s Registration Statement on Form S-1 (File No. 333-198962) and incorporated herein by reference.
- (4) Filed on August 20, 2015 as Exhibit 4.11 to the Company’s Registration Statement on Form S-1 (File No. 333-198962) and incorporated herein by reference.
- (5) Filed on August 20, 2015 as Exhibit 4.14 to the Company’s Registration Statement on Form S-1 (File No. 333-198962) and incorporated herein by reference.