SOLIGENIX, INC.
Form 424B3
November 10, 2014

Prospectus Supplement No. 3	**Filed Pursuant to Rule 424(b)(3)**
(To Prospectus dated April 21, 2014)	**File No. 333-192908**

SOLIGENIX, INC.

3,905,440 SHARES OF COMMON STOCK

This Prospectus Supplement No. 3 (this “Prospectus Supplement”) supplements the prospectus dated April 21, 2014 (the “Final Prospectus”), relating to the offer and sale of up to 3,905,440 shares of our common stock, par value $0.001 per share, by Lincoln Park Capital Fund, LLC.

This Prospectus Supplement contains the Quarterly Report on Form 10-Q that we filed with the Securities and Exchange Commission on November 10, 2014. This Prospectus Supplement should be read in conjunction with, and may not be utilized without, the Final Prospectus, which is to be delivered with this Prospectus Supplement. This Prospectus Supplement is qualified by reference to the Final Prospectus except to the extent that the information in this Prospectus Supplement updates and supersedes the information contained in the Final Prospectus, including any supplements or amendments thereto.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

Prospectus Supplement No. 3 dated November 10, 2014.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2014

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 No. 000-16929

SOLIGENIX, INC.

(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	**41-1505029** (I.R.S. Employer Identification Number)
29 EMMONS DRIVE, SUITE C-10 **PRINCETON, NJ** (Address of principal executive offices)	**08540** (Zip Code)

(609) 538-8200
(Registrant's telephone number, including area code)

Indicate by check whether the registrant (1) 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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web Site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer" and "large accelerated filer" in Rule 112b-2 of the Exchange Act (Check one).

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of November 10, 2014, 22,050,038 shares of the registrant's common stock (par value, $.001 per share) were outstanding.

SOLIGENIX, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1 - Financial Statements

Soligenix, Inc. and Subsidiaries

Consolidated Balance Sheets

	September 30, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$4,209,949	$5,856,242
Contracts and grants receivable	1,338,043	867,086
Taxes receivable	-	750,356
Prepaid expenses	205,507	135,391
Total current assets	5,753,499	7,609,075
Office furniture and equipment, net	53,229	23,868
Intangible assets, net	**466,214**	632,512
Total assets	$6,272,942	$8,265,455
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$3,059,325	$1,520,290
Warrant liability	7,429,460	8,281,247
Accrued compensation	59,983	233,739
Total current liabilities	10,548,768	10,035,276
Shareholders' equity deficiency:		
Preferred stock; 350,000 shares authorized; none issued or outstanding	-	-
Common stock, $.001 par value; 50,000,000 shares authorized; 22,050,038 shares and 19,626,439 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	22,050	19,626
Additional paid-in capital	136,671,281	130,549,930
Accumulated deficit	(140,969,157)	(132,339,377)
Total shareholders' deficiency	(4,275,826)	(1,769,821)
Total liabilities and shareholders' deficiency	$6,272,942	$8,265,455

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

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Soligenix, Inc. and Subsidiaries

Consolidated Statements of Operations

For the Three and Nine Months Ended September 30, 2014 and 2013

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues				
Contract revenue	$2,194,909	$-	$3,753,406	$-
Grant revenue	592,800	312,491	1,363,148	1,845,123
Total revenues	2,787,709	312,491	5,116,554	1,845,123
Cost of revenues	(2,109,530)	(245,864)	(3,773,095)	(1,517,469)
Gross profit	678,179	66,627	1,343,459	327,654
Operating expenses:				
Research and development	1,089,179	1,216,559	3,333,024	4,113,686
Acquired in-process research and development	4,000,000	-	4,000,000	-
Research and development	5,089,179	1,216,559	7,333,024	4,113,686
General and administrative	**730,378**	710,730	2,437,553	1,918,411
Total operating expenses	5,819,557	1,927,289	9,770,577	6,032,097
Loss from operations	(5,141,378)	(1,860,662)	(8,427,118)	(5,704,443)
Other income (expense):				
Change in fair value of warrant liability	791,395	(4,699,846)	(203,703)	(5,349,422)
Interest income, net	**428**	652	**1,041**	1,438
Net loss	$(4,349,555)	$(6,559,856)	$(8,629,780)	$(11,052,427)
Basic and diluted net loss per share	$**(0.21**)	$(0.34)	$**(0.43**)	$(0.78)
Basic and diluted weighted average common shares outstanding	20,671,097	19,040,339	20,120,035	14,160,157

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

Soligenix, Inc. and Subsidiaries

Consolidated Statements of Changes in Shareholders' Deficiency

For the Nine Months Ended September 30, 2014

(Unaudited)

	Common Stock		Additional Paid-In	Accumulated	
	Shares	Par Value	Capital	Deficit	Total
Balance, December 31, 2013	19,626,439	$19,626	$130,549,930	$(132,339,377)	$(1,769,821)
Issuance of common stock pursuant to Lincoln Park Equity line	230,743	231	470,244	-	470,475
Issuance of common stock to vendors	121,000	121	255,919	-	256,040
Issuance of shares from exercise of stock options	36,672	37	28,042	-	28,079
Reclassification of warrant liability upon partial exercise of warrants issued in unit offering	-	-	1,055,490	-	1,055,490
Fair value of common stock warrants issued to vendors	-	-	4,775	-	4,775
Issuance of common stock to collaboration partner	43,067	43	99,959	-	100,002
Shares issued in connection with asset purchase agreement	1,849,113	1,849	3,748,151	-	3,750,000
Issuance of common stock from cashless exercise of warrants	143,004	143	(143)	-	-
Stock-based compensation expense	-	-	458,914	-	458,914
Net loss	-	-	-	(8,629,780)	(8,629,780)
Balance, September 30, 2014	22,050,038	$22,050	$136,671,281	$(140,969,157)	$(4,275,826)

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

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Soligenix, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

For the Nine Months Ended September 30,

(Unaudited)

	2014	2013
Operating activities:		
Net loss	$(8,629,780)	$(11,052,427)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization and depreciation	183,960	171,666
Warrants issued to vendors	4,775	-
Change in fair value of warrant liability	203,703	5,349,422
Issuances of common stock for acquisition of in-process research and development	4,000,000	-
Issuances of common stock	106,042	1,559,588
Stock-based compensation	458,914	571,171
Change in operating assets and liabilities:		
Grants receivable	(470,957)	177,473
Taxes receivable	750,356	-
Prepaid expenses	(70,116)	(57,367)
Accounts payable	1,539,036	90,082
Accrued compensation	(173,755)	26,059
Total adjustments	6,531,958	7,888,094
Net cash used in operating activities	(2,097,822)	(3,164,333)
Investing activities:		
Purchase of office equipment	(47,025)	(10,539)
Net cash used in investing activities	(47,025)	(10,539)
Financing activities:		
Proceeds from sale of common stock, net	-	6,216,762
Net proceeds from common stock pursuant to the equity line	470,475	-
Proceeds from exercise of warrants and options	28,079	184,286
Net cash provided by financing activities	498,554	6,401,048
Net increase (decrease) in cash and cash equivalents	(1,646,293)	3,226,176
Cash and cash equivalents at beginning of period	5,856,242	3,356,380
Cash and cash equivalents at end of period	$4,209,949	$6,582,556

Supplemental disclosure of non cash investing and financing activities:		
Warrants issued in unit offering	$-	$4,827,788

Reclassification of warrant liability to additional paid in capital relating to warrants exercised	$1,055,490	$201,311

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

Soligenix, Inc.

Notes to Consolidated Financial Statements

(Unaudited)

Note 1. Nature of Business

Basis of Presentation

Soligenix, Inc. (the "Company") is a late-stage biopharmaceutical company developing products that address unmet medical needs of inflammation, oncology and biodefense. The Company maintains two active business segments: BioTherapeutics and Vaccines/BioDefense.

The Company's BioTherapeutics business segment is developing a first-in-class photo-dynamic therapy (SGX301) utilizing safe visible light for the treatment of cutaneous T-cell lymphoma ("CTCL"), proprietary formulations of oral beclomethasone 17,21-dipropionate ("BDP") for the prevention/treatment of gastrointestinal ("GI") disorders characterized by severe inflammation, including pediatric Crohn's disease (SGX203) and acute radiation enteritis (SGX201), and our novel innate defense regulator ("IDR") technology (SGX942) for the treatment of oral mucositis.

The Company's Vaccines/BioDefense business segment includes RiVax™, its ricin toxin vaccine, VeloThrax™, an anthrax vaccine, OrbeShield™, a gastrointestinal acute radiation syndrome ("GI ARS") therapeutic and SGX943, a melioidosis therapeutic. The advanced development of the vaccine programs is currently supported by the heat stabilization technology, known as ThermoVax™, under existing and on-going government contract funding. With the recently awarded government contracts from the Biomedical Advanced Research and Development Authority ("BARDA") and the National Institute of Allergy and Infectious Diseases ("NIAID"), the Company will attempt to advance the development of OrbeShield™ for the treatment of GI ARS. Additionally, the Company entered into a global and exclusive channel collaboration with Intrexon Corporation ("Intrexon") through which it intends to develop and commercialize human monoclonal antibody therapy (SGX101) to treat melioidosis.

The Company generates revenues under three active grants primarily from the NIH and government contracts from BARDA and NIAID.

The Company is subject to risks common to companies in the biotechnology industry including, but not limited to, development of new technological innovations, dependence on key personnel, protections of proprietary technology, compliance with the United States Food and Drug Administration (the "FDA") regulations, litigation, and product liability. Results for the three and nine months ended September 30, 2014 are not necessarily indicative of results that may be expected for the full year.

Liquidity

As of September 30, 2014, the Company had cash and cash equivalents of $4,209,949 as compared to $5,856,242 as of December 31, 2013, representing a decrease of $1,646,293 or 28%. As of September 30, 2014, the Company had working capital of $2,634,191, which excludes the non-cash warrant liability of $7,429,460, as compared to working capital of $5,855,046, which excludes a non-cash warrant liability of $8,218,247, as of December 31, 2013, representing a decrease of $3,220,855, or 55%. The decrease is primarily related to expenditures to support the Phase 2 clinical trial of SGX942 and a decrease in taxes receivable.

Based on the Company's current rate of cash outflows, cash on hand, proceeds from its government contract and grant programs, availability of funds from the Lincoln Park Capital Fund, LLC ("Lincoln Park") equity line and proceeds from the state of New Jersey Technology Business Tax Certificate Transfer Program, management believes that its current cash will be sufficient to meet the anticipated cash needs for working capital and capital expenditures for at least the next twelve months.

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Management's business strategy can be outlined as follows:

- Conduct a Phase 3 clinical trial of SGX301 for the treatment of CTCL;
- Conduct a Phase 2 clinical trial of SGX942 for the treatment of oral mucositis in head and neck cancer;
- Conduct a Phase 2/3 clinical trial of oral BDP, known as SGX203 for the treatment of pediatric Crohn's disease;
- Evaluate the effectiveness of oral BDP in other therapeutic indications involving inflammatory conditions of the GI tract such as prevention of acute radiation enteritis, prevention of acute radiation syndrome, and treatment of chronic GI GVHD;
- Develop RiVax™ and VeloThrax™ in combination with its proprietary vaccine heat stabilization technology known as ThermoVax™ to develop new heat stable vaccines in biodefense and infectious diseases with the potential to collaborate and/or partner with other companies in these areas;
- Advance the preclinical and manufacturing development of OrbeShield™ as a biodefense medical countermeasure for the treatment of GI ARS;
- Continue to apply for and secure additional government funding for each of its BioTherapeutics and Vaccine/BioDefense programs through grants, contracts and/or procurements;
- Acquire or in-license new clinical-stage compounds for development; and
- Explore other business development and merger/acquisition strategies, an example of which is the collaboration with Intrexon.

The Company's plans with respect to its liquidity management include, but are not limited to, the following:

- The Company has up to $53.3 million in active government contract and grant funding still available to support its associated research programs through 2015 and beyond. The Company plans to submit additional contract and grant applications for further support of its programs with various funding agencies.
- The Company has continued to use equity instruments to provide a portion of the compensation due to vendors and collaboration partners and expects to continue to do so for the foreseeable future.
- The Company will pursue Net Operating Loss ("NOLs") sales in the state of New Jersey pursuant to its Technology Business Tax Certificate Transfer Program. Based on the receipt, in January, of $750,356 in proceeds pursuant to NOLs sales in 2013, the Company expects to participate in the program during 2014 and beyond.
- The Company has a $10.0 million equity facility, with Lincoln Park, through October 2016, of which approximately $9.5 million was available at September 30, 2014; and
- The Company may seek additional capital in the private and/or public equity markets to continue its operations, respond to competitive pressures, develop new products and services, and to support new strategic partnerships. The Company is currently evaluating additional equity financing opportunities on an ongoing basis and may execute them when appropriate. However, there can be no assurances that the Company can consummate such a transaction, or consummate a transaction at favorable pricing.

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include Soligenix, Inc., and its wholly and majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated as a result of consolidation.

Operating Segments

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated on a regular basis by the chief operating decision maker, or decision making group, in deciding how to allocate resources to an individual segment and in assessing the performance of the segment. The Company divides its operations into two operating segments: BioTherapeutics and Vaccines/BioDefense.

Contracts and Grants Receivable

Contracts and grants receivable consist of unbilled amounts due from various grants from the NIH and contracts from BARDA and NIAID, an institute of the NIH, for costs incurred prior to the period end under reimbursement contracts. The amounts were billed to the respective governmental agencies in the month subsequent to period end and collected shortly thereafter. Accordingly, no allowance for doubtful amounts has been established. If amounts become uncollectible, they are charged to operations.

Intangible Assets

One of the most significant estimates or judgments that the Company makes is whether to capitalize or expense patent and license costs. The Company makes this judgment based on whether the technology has alternative future uses, as defined in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 730, *Research and Development*. Based on this consideration, the Company capitalizes payments made to legal firms that are engaged in filing and protecting rights to intellectual property and rights for its current products in both the domestic and international markets. The Company believes that patent rights are one of its most valuable assets. Patents and patent applications are a key component of intellectual property, especially in the early stage of product development, as their purchase and maintenance gives the Company access to key product development rights from Soligenix's academic and industrial partners. These rights can also be sold or sub-licensed as part of its strategy to partner its products at each stage of development as the intangible assets have alternative future use. The Company capitalizes such costs and amortizes intangibles over their expected useful life – generally a period of 11 to 16 years.

The Company did not capitalize any patent related costs during the three and nine months ended September 30, 2014 and 2013.

Impairment of Long-Lived Assets

Office furniture and equipment and intangible assets are evaluated and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company recognizes impairment of long-lived assets in the event the net book value of such assets exceeds the estimated future undiscounted cash flows attributable to such assets. If the sum of the expected undiscounted cash flows is less than the carrying value of the related asset or group of assets, a loss is recognized for the difference between the fair value and the carrying value of the related asset or group of assets. Such analyses necessarily involve significant judgment.

The Company did not record any impairment of long-lived assets for the three and nine months ended September 30, 2014 and 2013.

<u>Fair Value of Financial Instruments</u>

FASB ASC 820 — *Fair Value Measurements and Disclosures,* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 requires disclosures about the fair value of all financial instruments, whether or not recognized, for financial statement purposes. Disclosures about the fair value of financial instruments are based on pertinent information available to the Company on September 30, 2014. Accordingly, the estimates presented in these financial statements are not necessarily indicative of the amounts that could be realized on disposition of the financial instruments.

FASB ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

The three levels of the fair value hierarchy are as follows:

- Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 primarily consists of financial instruments whose value is based on quoted market prices such as exchange-traded instruments and listed equities.
- Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 includes financial instruments that are valued using models or other valuation methodologies. These models consider various assumptions, including volatility factors, current market prices and contractual prices for the underlying financial instruments. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.
- Level 3 — Unobservable inputs for the asset or liability. Financial instruments are considered Level 3 when their fair values are determined using pricing models, discounted cash flows or similar techniques and at least one significant model assumption or input is unobservable.

The carrying amounts reported in the consolidated balance sheet for cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate their fair value based on the short-term maturity of these instruments. The Company recognizes all derivative financial instruments as assets or liabilities in the financial statements and measures them at fair value with changes in fair value reflected as current period income or loss unless the derivatives qualify as hedges. As a result, certain warrants issued in connection with the offering were accounted for as derivatives. See Note 4, *Warrant Liabilities*.

Revenue Recognition

The Company's revenues are primarily generated from government contracts and grants. Revenue is recognized in accordance with FASB ASC 605, *Revenue Recognition,* ASC 605-25 and/or Accounting Standard Update, ASU, 2009-13, *Revenue Recognition – Multiple Element Arrangements*. The revenue from government contracts and grants is based upon subcontractor costs and internal costs incurred that are specifically covered by the grants, plus a facilities and administrative rate that provides funding for overhead expenses and management fee. These revenues are recognized when expenses have been incurred by subcontractors or when the Company incurs reimbursable internal expenses that are related to the government contracts grants.

Research and Development Costs

Research and development costs are charged to expense when incurred in accordance with FASB ASC 730, *Research and Development*. Research and development includes costs such as clinical trial expenses, contracted research and license agreement fees with no alternative future use, supplies and materials, salaries stock based compensation, employee benefits, equipment depreciation and allocation of various corporate costs. Purchased in-process research and development expense represents the value assigned or paid for acquired research and development for which there is no alternative future use as of the date of acquisition.

Accounting for Warrants

The Company considered FASB ASC 815, *Evaluating Whether an Instrument is Considered Indexed to an Entity's Own Stock*, which provides guidance for determining whether an equity-linked financial instrument (or embedded feature) issued by an entity is indexed to the entity's stock. The Company evaluated the warrants' provisions and determined that warrants issued in connection with the Company's June 2013 registered public offering contain provisions that protect holders from a decline in the issue price of the Company's common stock (or "down-round" provisions) and contain net settlement provisions. Consequently, these warrants are recognized as liabilities at their fair value on the date of grant and remeasured at fair value on each reporting date. All other warrants issued were indexed to the Company's stock and therefore are accounted for as equity instruments for 2014 and 2013.

Stock-Based Compensation

Stock options are issued with an exercise price equal to the market price on the date of issuance. Stock options issued to directors upon re-election vest quarterly for a period of one year (new director issuances are fully vested upon issuance). Stock options issued to employees vest 25% immediately as of the grant date, then 25% each subsequent year for a period of three years. Stock options vest over each three month period from the date of issuance to the end of the three year period. These options have a ten year life for as long as the individuals remain employees or directors. In general when an employee or director terminates their position the options will expire within three months, unless otherwise extended by the Board.

From time to time, the Company issues restricted shares of common stock to vendors and consultants as compensation for services performed. Stock-based compensation expense recognized during the period is based on the fair value of the portion of share-based payment awards that is ultimately expected to vest during the period. Typically these instruments vest upon issuance and therefore the entire stock compensation expense is recognized upon issuance to the vendors and/or consultants.

Stock compensation expense for options, warrants and shares of common stock granted to non-employees has been determined in accordance with FASB ASC 718, *Stock Compensation*, and FASB ASC 505-50, *Equity-Based Payments to Non-Employees*, and represents the fair value of the consideration received, or the fair value of the equity instruments issued, whichever may be more reliably measured. For options that vest over future periods, the fair value of options granted to non-employee directors is amortized as the options vest.

The fair value of options issued during the nine months ended September 30, 2014 was estimated using the Black-Scholes option-pricing model and the following assumptions:

- a dividend yield of 0%;
- an expected life of 4 years;
- volatilities ranging from 129% to 165%
- forfeitures at rate of 12%; and
- risk-free interest rates ranging from 1.05% to 1.43%.

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The fair value of each option grant was estimated on the date of each grant using the Black-Scholes option pricing model and amortized ratably over the option vesting periods, which approximates the service period.

Income Taxes

Deferred tax assets and liabilities 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. A valuation allowance is established when it is more likely than not that all or a portion of a deferred tax asset will not be realized. A review of all available positive and negative evidence is considered, including the Company’s current and past performance, the market environment in which the Company operates, the utilization of past tax credits, and the length of carryback and carryforward periods. Deferred tax assets and liabilities are measured utilizing tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. No current or deferred income taxes have been provided through September 30, 2014 due to the net operating losses incurred by the Company since its inception. The Company recognizes accrued interest and penalties associated with uncertain tax positions, if any, as part of income tax expense. There were no tax related interest and penalties recorded for 2014 and 2013. Additionally, the Company has not recorded an asset for unrecognized tax benefits or a liability for uncertain tax positions at September 30, 2014 or 2013. Tax years beginning in 2010 for federal purposes are generally subject to examination by the taxing authorities, although net operating losses from those years are subject to examinations and adjustments for at least three years following the year in which the tax attributes are utilized.

Earnings Per Share

Basic earnings per share (“EPS”) excludes dilution and is computed by dividing income (loss) available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that shared in the earnings of the entity. Since there is a significant number of options and warrants outstanding, fluctuations in the actual market price can have a variety of results for each period presented. No options and warrants were included in the 2014 and 2013 computations of diluted earnings per share because their effect would be anti-dilutive as a result of losses.

	Three Months Ended September 30,					
	2014			2013		
	Net Loss	Shares	EPS	Net Loss	Shares	EPS
Basic & Diluted EPS	$(4,349,555)	20,671,097	$(0.21)	$(6,559,856)	19,040,339	$(0.34)

	Nine Months Ended September 30,					
	2014			2013		
	Net Loss	Shares	EPS	Net Loss	Shares	EPS
Basic & Diluted EPS	$(8,629,780)	20,120,035	$(0.43)	$(11,052,427)	14,160,157	$(0.78)

Shares issuable upon the exercise of options and warrants outstanding at September 30, 2014 and 2013 were 2,200,147 and 1,915,324 shares issuable upon the exercise of outstanding stock options, and 6,100,182 and 8,152,776 shares issuable upon the exercise of outstanding warrants, respectively. The weighted average exercise price of the Company's stock options and warrants outstanding at September 30, 2014 were $2.54 and $1.90 per share, respectively.

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Use of Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions such as the fair value of warrants and stock options and the recovery of the useful life of intangibles that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Note 3. Intangible Assets

The following is a summary of intangible assets which consists of licenses and patents:

	Weighted Average Remaining Amortization Period (years)	Cost	Accumulated Amortization	Net Book Value
September 30, 2014				
Licenses	6.0	$462,234	$ 299,629	$162,605
Patents	2.1	1,893,185	1,589,576	303,609
Total	2.8	$2,355,419	$ 1,889,205	$466,214
December 31, 2013				
Licenses	6.7	$462,234	$ 279,258	$182,976
Patents	2.6	1,893,185	1,443,649	449,536
Total	3.4	$2,355,419	$ 1,722,907	$632,512

Amortization expense was $56,265 and $56,266 for the three months ended September 30, 2014 and 2013 respectively, and $166,298 and $166,962 for the nine months ended September 30, 2014 and 2013 respectively.

Based on the balance of licenses and patents at September 30, 2014, the expected annual amortization expense for each of the succeeding five years is estimated to be as follows:

Year	Amortization Expense
October 1 through December 31, 2014	$ 56,500
2015	$ 172,500

2016	$ 61,800
2017	$ 61,800
2018	$ 20,800

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Note 4. Warrant Liabilities

Warrants issued in connection with the Company's registered public offering contain provisions that protect holders from a decline in the issue price of its common stock (or "down-round" provision) and contain net settlement provisions. As a result, the Company accounts for these warrants as liabilities instead of equity instruments. Down-round provisions reduce the exercise or conversion price of a warrant if the Company issues equity shares for a price that is lower than the exercise or conversion price of the warrants. Net settlement provisions allow the holder of the warrant to surrender shares underlying the warrant equal to the exercise price as payment of its exercise price, instead of exercising the warrant by paying cash. The Company evaluates whether warrants to acquire its common stock contain provisions that protect holders from declines in the stock price or otherwise could result in modification of the exercise price and/or shares to be issued under the respective warrant agreements based on a variable that is not an input to the fair value of a "fixed for fixed" option.

The Company recognizes these warrants as liabilities at their fair value on the date of grant and remeasures them to fair value on each reporting date.

The Company recognized an initial warrant liability for the warrants issued in connection with the registered public offering completed in June 2013 totaling $4,827,788, which was based on the June 25, 2013 closing price of a share of the Company's common stock as reported on OTC Markets of $0.96. During the nine months ended September 30, 2014, 143,004 shares of common were issued upon 586,081 warrants exercised on a cashless basis. On January 22, 2014, 250,000 warrants were exercised and on August 19, 2014 336,081 were exercised. The fair value of the warrants exercised, or $1,055,490 was reclassified from warrant liability to additional paid-in capital. On September 30, 2014, the closing price of the Company's common stock as reported on OTC Markets was $2.00. Due to the fluctuations in the market value of the Company's common stock from December 31, 2013 through September 30, 2014, the Company recognized a non-cash charge of $203,703 for the change in the fair value of the warrant liability for the nine months ended September 30, 2014.

The assumptions used in connection with the valuation of warrants issued were as follows:

	December 31, 2013		**January 22, 2014**		**August 19, 2014**		September 30, 2014	
Number of shares underlying the warrants	5,309,438		5,309,438		5,059,438		4,723,357	
Exercise price	$ 1.65		1.65		$1.65		$ 1.65	
Volatility	135	%	135	%	130	%	128	%
Risk-free interest rate	1.75	%	1.30	%	1.25	%	1.43	%
Expected dividend yield	0		0		0		0	
Expected warrant life (years)	4.5		4.42		3.85		3.74	
Stock Price	$ 1.80		$2.29		$2.05		$ 2.00	

Recurring Level 3 Activity and Reconciliation

The table below provides a reconciliation of the beginning and ending balances for the liability measured at fair value using significant unobservable inputs (Level 3). The table reflects losses for the nine months ended September 30, 2014 for the financial liability categorized as Level 3 as of September 30, 2014.

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Fair Value Measurements Using Significant Unobservable Inputs (Level 3):

December 31, 2013	**Decrease from Warrants Exercised in 2014**