INNOVUS PHARMACEUTICALS, INC.
Form 10-Q
November 14, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period ended September 30, 2017
or
[ ] Transition Report Pursuant to Section 13 or 15(d) of the Exchange Act.

For the transition period from ___ to ____.

Commission File Number: 000-52991

INNOVUS PHARMACEUTICALS, INC.
(Exact name of registrant as specified in its charter)

Nevada (State or Other Jurisdiction of Incorporation or Organization)	90-0814124 (IRS Employer Identification No.)
8845 Rehco Road San Diego, CA (Address of Principal Executive Offices)	92121 (Zip Code)

858-964-5123
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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 Rule 405 of Regulation S-T (Sec.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company
Emerging growth company

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

As of November 10, 2017, the registrant had 164,434,088 shares of common stock outstanding.

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INNOVUS PHARMACEUTICALS, INC.
Condensed Consolidated Balance Sheets

	September 30, 2017	December 31, 2016
ASSETS	(Unaudited)	
Assets:		
Cash	$1,315,059	$829,933
Accounts receivable, net	27,526	33,575
Prepaid expense and other current assets	265,217	863,664
Inventories	640,055	599,856
Total current assets	2,247,857	2,327,028
Property and equipment, net	31,442	29,569
Deposits	14,958	14,958
Goodwill	952,576	952,576
Intangible assets, net	4,430,572	4,903,247
Total assets	$7,677,405	$8,227,378
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Accounts payable and accrued expense	$1,356,057	$1,210,050
Accrued compensation	1,201,187	767,689
Deferred revenue and customer deposits	-	11,000
Accrued interest payable	21,353	47,782
Derivative liabilities – embedded conversion features	-	319,674
Derivative liabilities – warrants	74,151	164,070
Contingent consideration	54,959	170,015
Short-term loan payable	57,590	-
	722,466	626,610

Current portion of notes payable, net of debt discount of $71,531 and $216,403, respectively		
Convertible debentures, net of debt discount of $0 and $845,730, respectively	-	714,192
Total current liabilities	3,487,763	4,031,082
Accrued compensation – less current portion	1,531,904	1,531,904
Notes payable, net of current portion and debt discount of $0 and $468, respectively	-	54,517
Contingent consideration – less current portion	1,435,499	1,515,902
Total non-current liabilities	2,967,403	3,102,323
Total liabilities	6,455,166	7,133,405
Commitments and contingencies		
Stockholders’ equity:		
Preferred stock: 7,500,000 shares authorized, at $0.001 par value, no shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	-	-
Common stock: 292,500,000 shares authorized, at $0.001 par value, 155,438,995 and 121,694,293 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	155,439	121,694
Additional paid-in capital	35,211,043	30,108,028
Accumulated deficit	(34,144,243)	(29,135,749)
Total stockholders' equity	1,222,239	1,093,973
Total liabilities and stockholders’ equity	$7,677,405	$8,227,378

See accompanying notes to these condensed consolidated financial statements.

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INNOVUS PHARMACEUTICALS, INC.
Condensed Consolidated Statements of Operations
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Net revenue:				
Product sales, net	$2,218,343	$1,882,129	$6,426,790	$3,126,112
License revenue	2,500	-	10,000	1,000
Net revenue	2,220,843	1,882,129	6,436,790	3,127,112
Operating expense:				
Cost of product sales	480,076	331,227	1,329,131	714,284
Research and development	8,736	43,775	26,982	47,667
Sales and marketing	1,626,630	1,972,155	4,869,717	2,257,166
General and administrative	1,321,001	1,779,048	4,207,899	4,012,357
Total operating expense	3,436,443	4,126,205	10,433,729	7,031,474
Loss from operations	(1,215,600)	(2,244,076)	(3,996,939)	(3,904,362)
Other income (expense):				
Interest expense	(104,276)	(3,719,200)	(771,885)	(5,970,450)
Loss on extinguishment of debt	(89,341)	-	(394,169)	-
Other income (expense), net	(4,800)	(37)	(5,622)	1,839
Fair value adjustment for contingent consideration	69,305	186,813	195,459	164,479
Change in fair value of derivative liabilities	16,055	1,350,688	(32,138)	(632,627)
Total other expense, net	(113,057)	(2,181,736)	(1,008,355)	(6,436,759)
Loss before provision for income taxes	(1,328,657)	(4,425,812)	(5,005,294)	(10,341,121)
Provision for income taxes	-	-	3,200	-
Net loss	$(1,328,657)	$(4,425,812)	$(5,008,494)	$(10,341,121)
Net loss per share of common stock – basic and diluted	$(0.01)	$(0.04)	$(0.03)	$(0.12)
Weighted average number of shares of common stock outstanding – basic and diluted	161,587,934	104,972,645	152,325,196	86,498,234

See accompanying notes to these condensed consolidated financial statements.

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INNOVUS PHARMACEUTICALS, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	For the Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net loss	$(5,008,494)	$(10,341,121)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	8,258	9,431
Allowance for doubtful accounts	5,090	918
Common stock, restricted stock units and stock options issued to employees, board of directors and consultants for compensation and services	997,030	1,889,837
Loss on extinguishment of debt	394,169	-
Fair value of embedded conversion feature in convertible debentures in excess of allocated proceeds	-	2,756,899
Change in fair value of contingent consideration	(195,459)	(164,479)
Change in fair value of derivative liabilities	32,138	632,627
Amortization of debt discount	687,598	2,997,061
Amortization of intangible assets	472,675	513,767
Changes in operating assets and liabilities, net of acquisition amounts		
Accounts receivable	959	51,304
Prepaid expense and other current assets	177,297	(450,394)
Inventories	(40,199)	(142,329)
Accounts payable and accrued expense	506,007	928,044
Accrued compensation	433,498	581,066
Accrued interest payable	(6,094)	10,976
Deferred revenue and customer deposits	(11,000)	(13,079)
Net cash used in operating activities	(1,546,527)	(739,472)
Cash flows from investing activities:		
Purchase of property and equipment	(10,131)	(6,565)
Payment on contingent consideration	-	(150,000)
Net cash used in investing activities	(10,131)	(156,565)
Cash flows from financing activities:		
Repayments of line of credit convertible debenture – related party	-	(409,192)

Proceeds from short-term loans payable	-	21,800
Payments on short-term loans payable	(7,199)	(252,151)
Proceeds from notes payable and convertible debentures	300,000	3,074,000
Payments on notes payable	(214,000)	(384,916)
Proceeds from stock option and warrant exercises	4,879	310,140
Financing costs in connection with convertible debentures	-	(40,000)
Proceeds from sale of common stock and warrants, net of offering costs	3,307,773	-
Payments on convertible debentures	(1,222,422)	(25,000)
Prepayment penalty on extinguishment of convertible debentures	(127,247)	-
Net cash provided by financing activities	2,041,784	2,294,681
Net change in cash	485,126	1,398,644
Cash at beginning of period	829,933	55,901
Cash at end of period	$1,315,059	$1,454,545

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Supplemental disclosures of cash flow information:

Cash paid for income taxes	$5,600	$-
Cash paid for interest	$89,931	$205,456
Supplemental disclosures of non-cash investing and financing activities:		
Common stock issued for conversion of convertible debentures, notes payable and accrued interest	$577,835	$2,935,900
Reclassification of the fair value of the embedded conversion features from derivative liability to additional paid-in capital upon conversion	$203,630	$2,962,666
Relative fair value of common stock issued in connection with notes payable recorded as debt discount	$99,386	$93,964
Proceeds from note payable paid to seller in connection with acquisition	$-	$300,000
Financing costs paid with proceeds from note payable	$-	$7,500
Cashless exercise of warrants	$-	$3,385
Fair value of the contingent consideration for acquisition	$-	$314,479
Reclassification of the fair value of the warrants from derivative liability to additional paid-in capital upon cashless exercise	$-	$518,224
Relative fair value of warrants issued in connection with convertible debentures recorded as debt discount	$-	$445,603
Relative fair value of common stock issued in connection with convertible debenturesrecorded as debt discount	$-	$1,127,225
Fair value of embedded conversion feature derivative liabilities recorded as debt discount	$-	$687,385
Fair value of warrants issued to placement agents in connection with convertible debentures recorded as debt discount	$-	$357,286
Fair value of unamortized non-forfeitable common stock issued to consultant included in prepaid expense and other current assets	$-	$135,540
Fair value of non-forfeitable common stock issued to consultant included in accounts payable and accrued expense	$360,000	$540,000
Issuance of shares of common stock for vested restricted stock units	$92	$19,229
Fair value of common stock issued for prepayment of future royalties due under the CRI License Agreement included in prepaid expense and other current assets	$44,662	$-
Proceeds from short-term loan payable for payment of D&O insurance premium	$64,789	$-
Fair value of beneficial conversion feature on line of credit convertible debenture – related party	$-	$3,444

See accompanying notes to these condensed consolidated financial statements.

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INNOVUS PHARMACEUTICALS, INC.
Notes to Condensed Consolidated Financial Statements
September 30, 2017
(Unaudited)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Innovus Pharmaceuticals, Inc., together with its subsidiaries (collectively referred to as “Innovus”, “we”, “our”, “us” or the “Company”) is a Nevada formed, San Diego, California-based emerging commercial stage pharmaceutical company delivering over-the-counter medicines and consumer care products for men’s and women’s health and respiratory diseases.

We generate revenue from 22 commercial products in the United States, including six of these commercial products in multiple countries around the world through our commercial partners. Our commercial product portfolio includes (a) Beyond Human® Testosterone Booster, (b) Beyond Human® Growth Agent, (c) Zestra® to increase female arousal and desire, (d) EjectDelay® for premature ejaculation, (e) Sensum+® for reduced penile sensitivity, (f) Zestra Glide®, (g) Vesele® for promoting sexual health, (h) Androferti® to support overall male reproductive health and sperm quality, (i) RecalMax™ for cognitive brain health, (j) Beyond Human® Green Coffee Extract, (k) Beyond Human® Vision Formula, (l) Beyond Human® Blood Sugar, (m) Beyond Human® Colon Cleanse, (n) Beyond Human® Ketones, (o) Beyond Human® Krill Oil, (p) Beyond Human® Omega 3 Fish Oil, (q) UriVarx™ for bladder health, (r) ProstaGorx™ for prostate health, (s) AllerVarx™ for management of allergy symptoms, (t) Apeaz™ indicated for arthritis pain relief, (u) ArthriVarx™ for joint health, and (v) PEVarx for extension of sexual intercourse time. While we generate revenue from the sale of our commercial products, most revenue is currently generated by Vesele®, Zestra®, Zestra® Glide, RecalMax™, Sensum+®, UriVarx™, ProstaGorx™, AllerVarx™, Apeaz™, ArthriVarx™, PEVarx™ and Beyond Hum Testosterone Booster.

Pipeline Products

FlutiCare™ (fluticasone propionate nasal spray). FlutiCare™ is our nationally branded Over-the-Counter (“OTC”) fluticasone propionate nasal spray, United States Pharmacopeia (“USP”) 50 mcg per spray, which is indicated to treat individuals with allergic rhinitis, or more commonly referred to as “allergies”. Allergic rhinitis is one of the most common ailments in the western world and is continuing to grow as there are approximately 50 million suffers in the U.S. alone according to GlobalData. We received our first commercial batch from our manufacturing partner in October 2017 and we expect to launch our FlutiCare™ OTC product in the U.S. in November 2017 (see Note 3).

Xyralid™. Xyralid™ is an OTC FDA monograph compliant drug containing the active drug ingredient lidocaine and indicated for the relief of the pain and symptoms caused by hemorrhoids. We launched this product under our Beyond Human® platform in November 2017.

Urocis™ XR. Urocis™ XR is a proprietary extended release of Vaccinium Marcocarpon (cranberry) shown to provide 24-hour coverage in the body in connection with urinary tract infections in women. We expect to launch this product in the first half of 2018.

AndroVit™. AndroVit™ is a proprietary supplement to support overall prostate and male sexual health. AndroVit™ was specifically formulated with ingredients known to support normal prostate health and vitality and male sexual health. We expect to launch this product in the first half of 2018.

In addition to the above listed product pipeline, we are continuously looking to add additional drugs, supplements and medical devices to our pipeline.

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Basis of Presentation and Principles of Consolidation

The condensed consolidated balance sheet as of December 31, 2016, which has been derived from audited consolidated financial statements, and these unaudited condensed consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"), and include all assets, liabilities, revenues and expenses of the Company and its wholly owned subsidiaries: FasTrack Pharmaceuticals, Inc., Semprae Laboratories, Inc. ("Semprae") and Novalere, Inc. ("Novalere"). All material intercompany transactions and balances have been eliminated. These interim unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016. Certain information required by U.S. GAAP has been condensed or omitted in accordance with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). The results for the period ended September 30, 2017 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2017 or for any future period. Certain items have been reclassified to conform to the current year presentation.

Use of Estimates

The preparation of these condensed consolidated financial statements in conformity with U.S. GAAP 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 dates of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Such management estimates include the allowance for doubtful accounts, sales returns and chargebacks, realizability of inventories, valuation of deferred tax assets, goodwill and intangible assets, valuation of contingent acquisition consideration, recoverability of long-lived assets and goodwill, fair value of derivative liabilities and the valuation of equity-based instruments and beneficial conversion features. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions.

Liquidity

Our operations have been financed primarily through proceeds from convertible debentures and notes payable, sales of our common stock and revenue generated from our products domestically and internationally by our partners. These funds have provided us with the resources to operate our business, sell and support our products, attract and retain key personnel and add new products to our portfolio. We have experienced net losses and negative cash flows from operations each year since our inception. As of September 30, 2017, we had an accumulated deficit of $34,144,243 and a working capital deficit of $1,239,906.

In March 2017, we raised net cash proceeds of $3,307,773 from the sale of common stock and warrants in a registered public offering (see Note 7) and, in October 2017, September 2017, January 2017 and December 2016, we raised $1,300,000 in gross proceeds from the issuance of notes payable to four investors (see Notes 5 and 10). We have also issued equity instruments in certain circumstances to pay for services from vendors and consultants.

As of September 30, 2017, we had $1,315,059 in cash. During the nine months ended September 30, 2017, we had net cash used in operating activities of $1,546,527. We expect that our existing capital resources, the proceeds received from the issuance of notes payable in October 2017 totaling $500,000 (see Note 10), revenue from sales of our products and upcoming sales milestone payments from the commercial partners signed for our products will be sufficient to allow us to continue our operations, commence the product development process and launch

selected products through at least the next 12 months. In addition, our CEO, who is also a significant shareholder, has deferred the remaining payment of his salary earned through June 30, 2016 totaling $1,531,904 for at least the next 12 months. Our actual needs will depend on numerous factors, including timing of introducing our products to the marketplace, our ability to attract additional international distributors for our products and our ability to in-license in non-partnered territories and/or develop new product candidates. Although no assurances can be given, we currently intend to raise additional capital through the sale of debt or equity securities to provide additional working capital, pay for further expansion and development of our business, and to meet current obligations. Such capital may not be available to us when we need it or on terms acceptable to us, if at all.

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Fair Value Measurement

Our financial instruments are cash, accounts receivable, accounts payable, accrued liabilities, derivative liabilities, contingent consideration and debt. The recorded values of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values based on their short-term nature. The fair values of the warrant derivative liabilities and embedded conversion feature derivative liabilities are based upon the Black Scholes Option Pricing Model ("Black-Scholes") and the Path-Dependent Monte Carlo Simulation Model calculations, respectively, and are a Level 3 measurement (see Note 8). The fair value of the contingent acquisition consideration is based upon the present value of expected future payments under the terms of the agreements and is a Level 3 measurement (see Note 3). Based on borrowing rates currently available to us, the carrying values of the notes payable approximate their respective fair values.

We follow a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to measurements involving significant unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

Level 1 measurements are quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access at the measurement date.

Level 2 measurements are inputs other than quoted prices included in Level 1 that are observable either directly or indirectly.

Level 3 measurements are unobservable inputs.

Concentration of Credit Risk, Major Customers and Segment Information

Financial instruments that potentially subject us to significant concentrations of credit risk consist primarily of cash and accounts receivable. Cash held with financial institutions may exceed the amount of insurance provided by the Federal Deposit Insurance Corporation on such deposits. Accounts receivable consist primarily of sales of Zestra® to U.S. based retailers and Ex-U.S. partners. We also require a percentage of payment in advance for product orders with our larger partners. We perform ongoing credit evaluations of our customers and generally do not require collateral.

Revenues consist primarily of product sales and licensing rights to market and commercialize our products. We have no customers that accounted for 10% or more of our total net revenue during the three and nine months ended September 30, 2017 and 2016 and three customers accounted for 76% and 62% of total net accounts receivable as of September 30, 2017 and December 31, 2016, respectively.

Over 95% of our sales are currently within the United States and Canada. The balance of the sales are to various other countries, none of which is 10% or greater.

We operate our business on the basis of a single reportable segment, which is the business of delivering over-the-counter medicines and consumer care products for men's and women's health and respiratory diseases. Our chief operating decision-maker is the Chief Executive Officer, who evaluates us as a single operating segment.

Revenue Recognition and Deferred Revenue

We generate revenue from product sales and the licensing of the rights to market and commercialize our products.

We recognize revenue in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 605, Revenue Recognition. Revenue is recognized when all of the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) title to the product has passed or services have been rendered; (3) price to the buyer is fixed or determinable and (4) collectability is reasonably assured.

Product Sales: We ship products directly to consumers pursuant to phone or online orders and to our wholesale and retail customers pursuant to purchase agreements or sales orders. Revenue from sales transactions where the buyer has the right to return the product is recognized at the time of sale only if (1) the seller's price to the buyer is substantially fixed or determinable at the date of sale, (2) the buyer has paid the seller, or the buyer is obligated to pay the seller and the obligation is not contingent on resale of the product, (3) the buyer's obligation to the seller would not be changed in the event of theft or physical destruction or damage of the product, (4) the buyer acquiring the product for resale has economic substance apart from that provided by the seller, (5) the seller does not have significant obligations for future performance to directly bring about resale of the product by the buyer and (6) the amount of future returns can be reasonably estimated.

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License Revenue: The license agreements we enter into normally generate three separate components of revenue: 1) an initial payment due on signing or when certain specific conditions are met; 2) royalties that are earned on an ongoing basis as sales are made or a pre-agreed transfer price and 3) sales-based milestone payments that are earned when cumulative sales reach certain levels. Revenue from the initial payments or licensing fee is recognized when all required conditions are met. Royalties are recognized as earned based on the licensee's sales. Revenue from the sales-based milestone payments is recognized when the cumulative revenue levels are reached. The achievement of the sales-based milestone underlying the payment to be received predominantly relates to the licensee's performance of future commercial activities. FASB ASC 605-28, Milestone Method, ("ASC 605-28") is not used by us as these milestones do not meet the definition of a milestone under ASC 605-28 as they are sales-based and similar to a royalty and the achievement of the sales levels is neither based, in whole or in part, on our performance, a specific outcome resulting from our performance, nor is it a research or development deliverable.

Sales Allowances

We accrue for product returns, volume rebates and promotional discounts in the same period the related sale is recognized.

Our product returns accrual is primarily based on estimates of future product returns over the period customers have a right of return, which is in turn based in part on estimates of the remaining shelf-life of products when sold to customers. Future product returns are estimated primarily based on historical sales and return rates. We estimate our volume rebates and promotional discounts accrual based on its estimates of the level of inventory of our products in the distribution channel that remain subject to these discounts. The estimate of the level of products in the distribution channel is based primarily on data provided by our customers.

In all cases, judgment is required in estimating these reserves. Actual claims for rebates and returns and promotional discounts could be materially different from the estimates.

We provide a customer satisfaction warranty on all of our products to customers for a specified amount of time after product delivery. Estimated return costs are based on historical experience and estimated and recorded when the related sales are recognized. Any additional costs are recorded when incurred or when they can reasonably be estimated.

The estimated reserve for sales returns and allowances, which is included in accounts payable and accrued expense, was approximately $44,000 and $61,000 at September 30, 2017 and December 31, 2016, respectively.

Advertising Expense

Advertising costs, which primarily includes print and online media advertisements, are expensed as incurred and are included in sales and marketing expense in the accompanying condensed consolidated statements of operations. Advertising costs were approximately $1,350,000 and $1,424,000 and $3,961,000 and $1,604,000 for the three and nine months ended September 30, 2017 and 2016, respectively.

Debt Extinguishment

Any gain or loss associated with debt extinguishment is recorded in the period in which the debt is considered extinguished. Third party fees incurred in connection with a debt restructuring accounted for as an extinguishment are capitalized. Fees paid to third parties associated with a term debt restructuring accounted for as a modification are expensed as incurred. Third party and creditor fees incurred in connection with a modification to a line of credit or

revolving debt arrangements are considered to be associated with the new arrangement and are capitalized.

Net Loss per Share

Basic net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding and vested but deferred RSUs during the period presented. Diluted net loss per share is computed using the weighted average number of common shares outstanding and vested but deferred RSUs during the periods plus the effect of dilutive securities outstanding during the periods. For the three and nine months ended September 30, 2017 and 2016, basic net loss per share is the same as diluted net loss per share as a result of our common stock equivalents being anti-dilutive. See Note 7 for more details.

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Recent Accounting Pronouncements

In July 2017, the FASB issued ASU No. 2017-11, Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features. The amendments in Part I of this ASU change the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. For freestanding equity classified financial instruments, the amendments require entities that present earnings per share to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic earnings per share. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted in any interim or annual period, with any adjustments reflected as of the beginning of the fiscal year of adoption. The amendments should be applied retrospectively to outstanding financial instruments with down round features by means of either a cumulative-effect adjustment to the consolidated statement of financial position as of the beginning of the first fiscal year and interim period of adoption or retrospectively to each prior reporting period presented in accordance with the guidance on accounting changes. We are currently in the process of evaluating the effect this standard will have on our derivative liabilities and the impact on our condensed consolidated financial position and results of operation.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments. This ASU provides clarification regarding how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This ASU addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The issues addressed in this ASU that will affect us is classifying debt prepayments or debt extinguishment costs and contingent consideration payments made after a business combination. This update is effective for annual and interim periods beginning after December 15, 2017, and interim periods within that reporting period and is to be applied using a retrospective transition method to each period presented. Early adoption is permitted. We have elected to early adopt ASU 2016-15 as of January 1, 2017 and, as a result, the prepayment penalty of $127,247 in connection with the extinguishment of the 2016 Notes (see Note 5) in March 2017 is classified as a financing cash outflow in the accompanying condensed consolidated statement of cash flows for the nine months ended September 30, 2017. The adoption of this ASU did not have a material impact on our condensed consolidated financial position, results of operations and related disclosures and had no other impact to the accompanying condensed consolidated statement of cash flows for the nine months ended September 30, 2017 and 2016.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which amends ASC Topic 718, Compensation - Stock Compensation. The ASU involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, forfeitures, classification of awards as either equity or liabilities and classification on the statement of cash flows. Certain of these changes are required to be applied retrospectively, while other changes are required to be applied prospectively. ASU 2016-09 is effective for public business entities for annual reporting periods beginning after December 15, 2016, and interim periods within that reporting period. Early adoption will be permitted in any interim or annual period, with any adjustments reflected as of the beginning of the fiscal year of adoption. As a result of the adoption of this ASU as of January 1, 2017, we have made an entity-wide accounting policy election to account for forfeitures when they occur. There is no cumulative-effect adjustment as a result of the adoption of this ASU as our estimated forfeiture rate prior to adoption of this ASU was 0%. The adoption of this ASU did not have a material impact on our condensed

consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. This updated guidance supersedes the current revenue recognition guidance, including industry-specific guidance. The updated guidance introduces a five-step model to achieve its core principal of the entity recognizing revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14 which deferred the effective date by one year for public entities and others. The amendments in this ASU are effective for interim and annual periods beginning after December 15, 2017 for public business entities, certain not-for-profit entities, and certain employee benefit plans. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. In March 2016, the FASB issued ASU 2016-08 which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10 which clarifies the principle for determining whether a good or service is “separately identifiable” and, therefore, should be accounted for separately. In May 2016 the FASB issued ASU 2016-12 which clarifies the objective of the collectability criterion. A separate update issued in May 2016 clarifies the accounting for shipping and handling fees and costs as well as accounting for consideration given by a vendor to a customer. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers.

We plan to adopt the standard on January 1, 2018. We currently believe that once we do adopt this standard, we will use the modified retrospective approach. Under the modified approach, an entity recognizes "the cumulative effect of initially applying the ASU as an adjustment to the opening balance of retained earnings of the annual reporting period that includes the date of initial application" (revenue in periods presented in the consolidated financial statements before that date is reported under guidance in effect before the change). Using this approach, an entity applies the guidance in the ASU to existing contracts (those for which the entity has remaining performance obligations) as of, and new contracts after, the date of initial application. The ASU is not applied to contracts that were completed before the effective date (i.e., an entity has no remaining performance obligations to fulfill). Entities that elect the modified approach must disclose an explanation of the impact of adopting the ASU, including the consolidated financial statement line items and respective amounts directly affected by the standard's application.

While we are still currently assessing the impact of the new standard, our revenue is primarily generated from the sale of finished product to customers. Those sales predominantly contain a single delivery element and revenue is recognized at a single point in time when ownership, risks and rewards transfer. The timing of revenue recognition for these product sales are not materially impacted by the new standard. However, we are utilizing a comprehensive approach to assess the impact of the guidance on our current contract portfolio by reviewing our current accounting policies and practices to identify potential differences that would result from applying the new requirements to our revenue contracts, including evaluation of performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price, allocating the transaction price to each separate performance obligation and accounting treatment of costs to obtain and fulfill contracts. We continue to make significant progress on the potential impact on our accounting policies and internal control processes including system readiness. In addition, we will update certain disclosures, as applicable, included in our filings pursuant to the Securities Exchange Act of 1934, as amended, to meet the requirements of the new guidance.

In February 2016, the FASB issued ASU 2016-02, Leases. The standard requires lessees to recognize lease assets and lease liabilities on the consolidated balance sheet and requires expanded disclosures about leasing arrangements. We plan to adopt the standard on January 1, 2019. We are currently assessing the impact that the new standard will have on our consolidated financial statements, which will consist primarily of a balance sheet gross up of our operating leases to show equal and offsetting lease assets and lease liabilities.

NOTE 2 – LICENSE AGREEMENTS

CRI In-License Agreement

On April 19, 2013, the Company and Centric Research Institute ("CRI") entered into an asset purchase agreement (the "CRI Asset Purchase Agreement") pursuant to which we acquired:

All of CRI's rights in past, present and future Sensum+® product formulations and presentations, and

An exclusive, perpetual license to commercialize Sensum+® products in all territories except for the United States.

On June 9, 2016, the Company and CRI amended the CRI Asset Purchase Agreement ("Amended CRI Asset Purchase Agreement") to provide us commercialization rights for Sensum+® in the U.S. through our Beyond Human® marketing platform through December 31, 2016. On January 1, 2017, the Company and CRI agreed to extend the term of the Amended CRI Asset Purchase Agreement to December 31, 2017. In connection with the extension, we issued restricted shares of common stock totaling 225,000 to CRI as a prepayment of royalties due on net profit of Sensum+® in the U.S. in 2017. The royalty prepayment amount is $44,662 as the number of shares of common stock issued was based on the closing price of our common stock on December 30, 2016. If CRI does not earn royalties

larger than the prepaid amount of $44,662 in 2017, the term of the Amended CRI Asset Purchase Agreement is automatically extended one additional year to December 31, 2018.

The CRI Asset Purchase Agreement also requires us to pay to CRI up to $7.0 million in cash milestone payments based on first achievement of annual Ex-U.S. net sales targets plus a royalty based on annual Ex-U.S. net sales. The obligation for these payments expires on April 19, 2023 or the expiration of the last of CRI's patent claims covering the product or its use outside the U.S., whichever is sooner. No sales milestone obligations have been met and no royalties are owed to CRI under this agreement during the three and nine months ended September 30, 2017 and 2016.

In consideration for the Amended CRI Asset Purchase Agreement, we are required to pay CRI a percentage of the monthly net profit, as defined in the agreement, from our sales of Sensum+® in the U.S. through our Beyond Human® marketing platform. During the three and nine months ended September 30, 2017 and 2016, no amounts have been earned by CRI under the Amended CRI Asset Purchase Agreement.

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Densmore Pharmaceutical International Agreement

On April 24, 2017, we entered into an exclusive ten-year license agreement with Densmore Pharmaceutical International, a Monaco company ("Densmore"), under which we granted to Densmore an exclusive license to market and sell our topical treatment for Female Sexual Interest/Arousal Disorder ("FSI/AD") Zestra® in France and Belgium. Under the agreement, we received a non-refundable upfront payment of $7,500 which was recognized as revenue in the accompanying condensed consolidated statement of operations for the nine months ended September 30, 2017. We believe the amount of the upfront payment received is reasonable compared to the amounts to be received upon obtainment of future minimum order quantities. Densmore is obligated to order certain minimum annual quantities of Zestra® at a pre-negotiated transfer price per unit during the term of the agreement. During the three and nine months ended September 30, 2017, we recognized revenue for the sale of products related to this agreement of $100,341.

In July 2017, we entered into an amendment to the agreement with Densmore to expand the product territory to Singapore and Vietnam.

Luminarie Pty Ltd. Agreement

On May 16, 2017, we entered into an exclusive ten-year license agreement with Luminarie Pty Ltd., a Australia company ("Luminarie"), under which we granted to Luminarie an exclusive license to market and sell our topical treatment for FSI/AD Zestra® and Zestra Glide® in Australia, New Zealand and the Philippines. Luminarie received approval for Zestra® as a Class I Medical Device in Australia in July 2017 and New Zealand in September 2017. Luminarie is obligated to order certain minimum annual quantities of Zestra® and Zestra Glide® at a pre-negotiated transfer price per unit during the term of the agreement. During the three and nine months ended September 30, 2017, we did not recognize any revenue for the sale of products related to this agreement.

LI USA Co. Agreement

On November 9, 2016, we entered into an exclusive ten-year license agreement with J&H Co. LTD, a South Korea company ("J&H"), under which we granted to J&H an exclusive license to market and sell our topical treatment for Female Sexual Interest/Arousal Disorder ("FSI/AD") Zestra® and Zestra Glide® in South Korea. Under the agreement, J&H is obligated to order minimum annual quantities of Zestra® and Zestra Glide® totaling $2.0 million at a pre-negotiated transfer price per unit. The minimum annual order quantities by J&H are to be made over a 12-month period following the approval of the product by local authorities and beginning upon the completion of the first shipment of product. Our partner recently received the approval to import the product and placed its first order in March 2017. During the three and nine months ended September 30, 2017, we recognized $0 and $60,000 in revenue for the sale of products related to this agreement.

On October 26, 2017, the exclusive license and distributor rights under this agreement were assigned to LI USA Co., a U.S. company ("LI USA"), from J&H and LI USA is now the distributor under this agreement. LI USA is controlled by the same original owners as J&H. All terms and conditions of the original agreement remain intact.

Sothema Laboratories Agreement

On September 23, 2014, we entered into an exclusive license agreement with Sothema Laboratories, SARL, a Moroccan publicly traded company ("Sothema"), under which we granted to Sothema an exclusive license to market and sell Zestra® (based on the latest Canadian approval of the indication) and Zestra Glide® in several Middle Eastern and African countries (collectively the "Territory").

Under the agreement, we received an upfront payment of $200,000 and are eligible to receive additional consideration upon and subject to the achievement of sales milestones based on cumulative supplied units of the licensed products in the Territory, plus a pre-negotiated transfer price per unit. We believe the amount of the upfront payment received is reasonable compared to the amounts to be received upon obtainment of future sales-based milestones.

As the sales-based milestones do not meet the definition of a milestone under ASC 605-28, we will recognize the revenue from the milestone payments when the cumulative supplied units' volume is met. During the three and nine months ended September 30, 2017 and 2016, we recognized $0 and $666 and $0 and $12,229, respectively, in net revenue for the sales of products related to this agreement, and no revenue was recognized for the sales-based milestones of the agreement.

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Orimed Pharma Agreement

On September 18, 2014, we entered into a twenty-year exclusive license agreement with Orimed Pharma ("Orimed"), an affiliate of JAMP Pharma, under which we granted to Orimed an exclusive license to market and sell in Canada Zestra®, Zestra Glide®, our topical treatment for premature ejaculation EjectDelay® and our product Sensum+® to increase penile sensitivity.

Under the agreement, we received an upfront payment of $100,000 and are eligible to receive additional consideration upon and subject to the achievement of sales milestones based on cumulative gross sales in Canada by Orimed plus double-digit tiered royalties based on Orimed's cumulative net sales in Canada. We believe the amount of the upfront payment received is reasonable compared to the amounts to be received upon obtainment of future sales-based milestones.

As the sales-based milestones do not meet the definition of a milestone under ASC 605-28, we will recognize the revenue from the milestone payments when the cumulative gross sales volume is met. We will recognize the revenue from the royalty payments on a quarterly basis when the cumulative net sales have been met. During the three and nine months ended September 30, 2017 and 2016, under this agreement we recognized $11,230 and $40,233 and $32,143 and $49,376, respectively, in net revenue for the sales of products and no revenue was recognized for the sales-based milestones.

NOTE 3 – BUSINESS AND ASSET ACQUISITIONS

Acquisition of Novalere in 2015

On February 5, 2015 (the "Closing Date"), Innovus, Innovus Pharma Acquisition Corporation, a Delaware corporation and a wholly-owned subsidiary of Innovus ("Merger Subsidiary I"), Innovus Pharma Acquisition Corporation II, a Delaware corporation and a wholly-owned subsidiary of Innovus ("Merger Subsidiary II"), Novalere FP, Inc., a Delaware corporation ("Novalere FP") and Novalere Holdings, LLC, a Delaware limited liability company ("Novalere Holdings"), as representative of the shareholders of Novalere (the "Novalere Stockholders"), entered into an Agreement and Plan of Merger (the "Merger Agreement"), pursuant to which Merger Subsidiary I merged into Novalere and then Novalere merged with and into Merger Subsidiary II (the "Merger"), with Merger Subsidiary II surviving as a wholly-owned subsidiary of Innovus. Pursuant to the articles of merger effectuating the Merger, Merger Subsidiary II changed its name to Novalere, Inc.

With the Merger, we acquired the worldwide rights to market and sell the FlutiCare™ brand (fluticasone propionate nasal spray) and the related third-party manufacturing agreement for the manufacturing of FlutiCare™ ("Acquisition Manufacturer") from Novalere FP. The OTC Abbreviated New Drug Application ("ANDA") for fluticasone propionate nasal spray was filed at the end of 2014 by our third-party manufacturer and partner, who is currently selling the prescription version of the drug, with the FDA and the OTC ANDA is still subject to FDA approval. An ANDA is an application for a U.S. generic drug approval for an existing licensed medication or approved drug. A prescription ANDA ("RX ANDA") is for a generic version of a prescription pharmaceutical and an OTC ANDA is for a generic version of an OTC pharmaceutical.

Due to the delay in approval of the Acquisition Manufacturer's OTC ANDA by the FDA, in May 2017, we announced a commercial relationship with a different third-party manufacturer (West-Ward Pharmaceuticals International Limited or "WWPIL") who has an FDA approved OTC ANDA for fluticasone propionate nasal spray under which they have agreed to manufacture our FlutiCare™ OTC product for sale in the U.S. (see Note 9). We currently still anticipate that the OTC ANDA filed in November 2014 by the Acquisition Manufacturer with the FDA may be approved in

2017. As we hold the worldwide rights to market and sell FlutiCare™ under the manufacturing agreement with the Acquisition Manufacturer, we believe the agreement with the Acquisition Manufacturer will still provide us with the opportunity to market and sell FlutiCare™ ex-U.S. and, if the OTC ANDA is approved by the FDA, a second source of supply within the U.S., if ever needed.

The Novalere Stockholders are entitled to receive, if and when earned, earn-out payments (the "Earn-Out Payments"). For every $5.0 million in Net Revenue (as defined in the Merger Agreement) realized from the sales of FlutiCare™ through the manufacturing agreement with the Acquisition Manufacturer, the Novalere Stockholders will be entitled to receive, on a pro rata basis, $500,000, subject to cumulative maximum Earn-Out Payments of $2.5 million. The Novalere Stockholders are only entitled to the Earn-Out Payments from the Acquisition Manufacturer's OTC ANDA under review by the FDA and have no earn-out rights to the sales of FlutiCare™ supplied by WWPIL under the commercial agreement entered into in May 2017.

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During the three and nine months ended September 30, 2017, there was a decrease in the estimated fair value of the remaining 138,859 ANDA consideration shares totaling $2,400 and $22,107 which is included in fair value adjustment for contingent consideration in the accompanying condensed consolidated statement of operations. The remaining 138,859 ANDA consideration shares not issuable yet will be issued upon FDA approval of the ANDA filed by the Acquisition Manufacturer and the estimated fair value of such remaining shares of $10,109 is included in contingent consideration in the accompanying condensed consolidated balance sheet at September 30, 2017. There was no change to the estimated fair value of the future earn-out payments of $1,248,124 during the three and nine months ended September 30, 2017 and there was no change to the estimated fair value of the contingent consideration during the three and nine months ended September 30, 2016.

Purchase of Semprae Laboratories, Inc. in 2013

On December 24, 2013 (the “Semprae Closing Date”), we, through Merger Sub, obtained 100% of the outstanding shares of Semprae in exchange for the issuance of 3,201,776 shares of our common stock, which shares represented 15% of our total issued and outstanding shares as of the close of business on the Closing Date, whereupon Merger Sub was renamed Semprae Laboratories, Inc. We agreed to pay the former shareholders an annual royalty (“Royalty”) equal to 5% of the net sales from Zestra® and Zestra Glide® and any second generation products derived primarily therefrom (“Target Products”) up until the time that a generic version of such Target Product is introduced worldwide by a third party.

The agreement to pay the annual Royalty resulted in the recognition of a contingent consideration, which is recognized at the inception of the transaction, and subsequent changes to estimate of the amounts of contingent consideration to be paid will be recognized as charges or credits in the consolidated statement of operations. The fair value of the contingent consideration is based on preliminary cash flow projections, growth in expected product sales and other assumptions. During the three and nine months ended September 30, 2017 and 2016, no amounts have been paid under this arrangement. The fair value of the expected royalties to be paid was decreased by $66,905 and $0 and $173,352 and $0 during the three and nine months ended September 30, 2017 and 2016, respectively, which is included in the fair value adjustment for contingent consideration in the accompanying condensed consolidated statements of operations. The fair value of the contingent consideration was $232,225 and $405,577 at September 30, 2017 and December 31, 2016, respectively, based on the new estimated fair value of the consideration.

NOTE 4 – ASSETS AND LIABILITIES

Inventories

Inventories consist of the following:

	September 30, 2017	December 31, 2016
Raw materials and supplies	$194,895	$85,816
Work in process	62,786	48,530
Finished goods	382,374	465,510
Total	$640,055	$599,856

Intangible Assets

Amortizable intangible assets consist of the following:

	September 30, 2017			
	Amount	Accumulated Amortization	Net Amount	Useful Lives (years)
Patent & Trademarks	$417,597	(116,408)	$301,189	7 – 15
Customer Contracts	611,119	(234,262)	376,857	10
Sensum+® License (from CRI)	234,545	(101,600)	132,945	10
Vesele® Trademark	25,287	(9,418)	15,869	8
Beyond Human® Website and Trade Name	222,062	(62,360)	159,702	5 – 10
Novalere Manufacturing Contract	4,681,000	(1,238,515)	3,442,485	10
Other Beyond Human® Intangible Assets	4,730	(3,205)	1,525	1 – 3
Total	$6,196,340	$(1,765,768)	$4,430,572	

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	December 31, 2016			
	Amount	Accumulated Amortization	Net Amount	Useful Lives (years)
Patent & Trademarks	$417,597	$(91,201)	$326,396	7 – 15
Customer Contracts	611,119	(188,428)	422,691	10
Sensum+® License (from CRI)	234,545	(84,009)		