OptimizeRx Corp
Form 10-Q
May 14, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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 **March 31, 2015**

Transition Report pursuant to 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from __________ to __________

Commission File Number: **000-53605**

**OptimizeRx Corporation**

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Nevada** | **26-1265381** |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |

**400 Water Street, Suite 200**

**Rochester, MI, 48307**

(Address of principal executive offices)

**248-651-6568**

(Registrant's telephone number)

______________________________________________

(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 (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

| | |
|---|---|
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer | 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

State the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 23,042,819 common shares as of May 14, 2015.

**TABLE OF CONTENTS**

## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

Our consolidated financial statements included in this Form 10-Q are as follows:



These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the SEC instructions to Form 10-Q. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the interim period ended March 31, 2015 are not necessarily indicative of the results that can be expected for the full year.

**OPTIMIZERx CORPORATION**

**BALANCE SHEETS (UNAUDITED)**

**AS OF MARCH 31, 2015 AND DECEMBER 31, 2014**

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | $3,510,823 | $3,446,973 |
| Accounts receivable | 1,813,541 | 2,100,381 |
| Prepaid expenses | 38,299 | 28,093 |
| Total Current Assets | 5,362,663 | 5,575,447 |
| Property and equipment, net | 11,744 | 12,813 |
| Other Assets | | |
| Patent rights, net | 916,956 | 930,854 |
| Web development costs, net | 462,784 | 504,643 |
| Security deposit | 5,049 | 5,049 |
| Total Other Assets | 1,384,789 | 1,440,546 |
| TOTAL ASSETS | $6,759,196 | $7,028,806 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable - trade | $163,131 | $200,372 |
| Accounts payable - related party | 570,000 | 570,000 |
| Accrued expenses | 30,851 | 25,459 |
| Revenue share payable | 1,163,302 | 1,502,761 |
| Deferred revenue | 253,438 | 120,130 |
| Total Liabilities | 2,180,722 | 2,418,722 |
| Stockholders' Equity | | |
| Common stock, $.001 par value, 500,000,000 shares authorized, 22,924,819 and 22,867,319 shares issued and outstanding, respectively | 22,925 | 22,867 |
| Preferred stock, $.001 par value, 10,000,000 shares authorized, 0 and 65 shares issued and outstanding, respectively | - | - |
| Stock warrants | 2,153,295 | 2,153,295 |
| Additional paid-in-capital | 27,720,330 | 27,595,609 |
| Stock payable | 1,021,000 | 963,063 |
| Deferred stock compensation | (103,125) | - |
| Accumulated deficit | (26,235,951) | (26,124,750) |
| Total Stockholders' Equity | 4,578,474 | 4,610,084 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $6,759,196 | $7,028,806 |

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

F-2

**OPTIMIZERx CORPORATION**

**CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

**FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014**

| | For the Three Months Ended March 31 | |
|---|---|---|
| | 2015 | Restated 2014 |
| NET REVENUE | $1,487,553 | $1,289,428 |
| COST OF SALES | 756,440 | 561,411 |
| GROSS MARGIN | 731,113 | 728,017 |
| OPERATING EXPENSES | 842,610 | 1,490,218 |
| LOSS FROM OPERATIONS | (111,497) | (762,201) |
| OTHER INCOME (EXPENSE) | | |
| Interest income | 296 | 106 |
| TOTAL OTHER INCOME (EXPENSE) | 296 | 106 |
| LOSS BEFORE PROVISION FOR INCOME TAXES | (111,201) | (762,095) |
| PROVISION FOR INCOME TAXES | - | - |
| NET LOSS | $(111,201) | $(762,095) |
| WEIGHTED AVERAGE SHARES OUTSTANDING | | |
| BASIC AND DILUTED | 22,897,819 | 16,683,894 |
| NET LOSS PER SHARE | | |
| BASIC AND DILUTED | $(0.00) | $(0.05) |

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

**OPTIMIZERx CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

**FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014**

| | For the three months Ended March 31 | |
|---|---|---|
| | 2015 | Restated 2014 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss for the period | $(111,201) | $(762,095) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 79,668 | 58,906 |
| Stock and options issued for services | 79,591 | 439,838 |
| Changes in: | | |
| Accounts receivable | 286,840 | 400,330 |
| Prepaid expenses | (10,206) | (34) |
| Accounts payable | (37,241) | 66,439 |
| Revenue share payable | (339,459) | (321,947) |
| Accrued expenses | 5,392 | 134,042 |
| Deferred revenue | 133,308 | 211,248 |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | 86,692 | 226,727 |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Patent rights | (3,042) | (33.297) |
| Website site development costs | (19,800) | (75,975) |
| NET CASH USED IN INVESTING ACTIVITIES | (22,842) | (109,272) |
| | | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Issuance of common stock | - | 10,000,000 |
| Equity issuance costs | - | (1,204,968) |
| Purchase of common and preferred stock and warrants | - | (6,000,000) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | - | 2,795,032 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 63,850 | 2,912,487 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD | 3,446,973 | 1,118,243 |
| CASH AND CASH EQUIVALENTS - END OF PERIOD | $3,510,823 | $4,030,730 |
| | | |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash paid for interest | $- | $- |
| Cash paid for income taxes | $- | $- |

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

F-4

**OPTIMIZERx CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**MARCH 31, 2015**

NOTE 1 – NATURE OF BUSINESS AND BASIS OF PRESENTATION

OptimizeRx Corporation, is a technology solution company focused on the health care industry. Its objective is to bring better access to better care by leveraging its proprietary technology to provide on demand savings and support within physicians and patients web based platforms, including Electronic Health Records and Patient Portals. Initially defined as a marketing and advertising company through its consumer website, OptimizeRx.com, the Company has matured as a technology solutions provider through its direct to physician solution, SampleMD. SampleMD allows physicians to automatically display and distribute sample vouchers and/or co-pay coupons electronically within the ePrescription platform to pharmacies on behalf of their patients. The SampleMD solution is integrated into the ePrescribing or Electronic Medical Records applications, but can also sit on a prescriber's desktop.

OptimizeRx solutions provide health care institutions with an alternative option to the traditional hassles and issues associated with storing and managing physical drug samples and pre-printed coupons and it provides better access and affordability to patients to improve affordability, adherence and outcomes. In turn, OptimizeRx provides pharmaceutical manufacturers with both direct to consumer and direct to physician channels for more efficiently communicating and promoting their products and savings.

The consolidated financial statements for the three month periods ended March 31, 2015 and 2014 have been prepared by us without audit pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, all adjustments necessary to present fairly our financial position, results of operations, and cash flows as of March 31, 2015 and 2014, and for the periods then ended, have been made. Those adjustments consist of normal and recurring adjustments. The consolidated balance sheet as of December 31, 2014, has been derived from the audited consolidated balance sheet as of that date.

Certain information and note disclosures normally included in our annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These consolidated financial statements should be read in conjunction with a reading of the financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, as filed with the U.S. Securities and Exchange Commission.

The results of operations for the three month period ended March 31, 2015, are not necessarily indicative of the results to be expected for the full year. Certain reclassifications have been made in the prior period's consolidated financial statements to conform to the current period's presentation.

NOTE 2 – STOCKHOLDERS EQUITY

In January 2015, we issued 12,500 shares of common stock to outside Directors in connection with our Director Compensation plan which calls for issuance of 6,250 shares per quarter for each Director. Those shares were recorded as stock payable at December 31, 2014. In addition, we recorded an additional 12,500 shares, valued at $16,375 as stock payable at March 31, 2015 for shares to be issued in April 2015.

In February 2015 we entered into a capital markets advisory agreement covering a one year period which calls for 90,000 shares of common stock to be issued as compensation. These shares were valued at $112,500 and are being amortized to expense over the period of service. 45,000 of these shares were issued in March 2015, with the balance to be issued in August 2015. The agreement also allows an additional 60,000 shares to be earned based on future contingencies.

In March 2014, we entered into a securities purchase agreement, pursuant to which we sold 8,333,333 shares of our common stock for $1.20 per share, or gross proceeds of $10,000,000.

**OPTIMIZERx CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**MARCH 31, 2015**

NOTE 2 – STOCKHOLDERS EQUITY (CONTINUED)

Placement agents in the offering received commissions equal to approximately 9.7% of gross proceeds, for an aggregate commission of approximately $970,000, including reimbursements for their reasonable out of pocket expenses. Placement agents also received warrants to purchase up to 804,139 shares of our common stock with an exercise price of $1.20 per share and a term of 5 years. The warrants were valued at $1,110,211, have been recorded as equity issuance costs, and were registered on a registration statement that went effective May 28, 2014. In addition to the warrants to placement agents, we also paid cash bonuses of $240,000 to three executive officers, agreed to issue 200,000 shares to three executive officers, and issued 150,000 shares to a consultant, in connection with the equity raise. The stock was valued based on the fair market value on the grant date, which was $630,000 in total. These amounts have been recorded as equity issuance costs, resulting in total equity issuance costs of $2.95 million. The 200,000 shares for the three executive officers have not been issued, but are recorded as stock payable and can be requested by the executive officers at any time.

We used the net proceeds of the offering to exercise the securities redemption option agreement, as amended, with Vicis Capital Master Fund that provided us with an option to purchase all of the outstanding shares and derivative securities held by Vicis for total payment of $6,000,000. The shares and derivative securities included the Series A Convertible Preferred Stock, Series B Convertible Preferred Stock, Common Stock, and warrants to purchase shares of common stock held by Vicis in the Company. The balance of the net proceeds were used for working capital purposes.

In January 2014, an executive officer exercised 500,000 stock warrants using the cashless exercise feature included in the warrants. In exchange for the 500,000 warrants, 410,348 shares of common stock were issued.

In February 2014, we agreed to grant 337,500 shares of our common stock, half of which vested immediately and half of which vested in August 2014, to two executive officers as bonuses based on their efforts to recapitalize the company to secure approximately $3 million in working capital while reducing fully diluted shares by approximately 7 million shares. These shares have not been issued, but are recorded as stock payable and can be requested by the officers at any time.

NOTE 3 – SHARE BASED PAYMENTS – OPTIONS

We use the fair value method to account for stock based compensation. We recorded $53,841 and $36,235 in compensation expense in the periods ended March 31, 2015 and 2014, respectively, related to options issued under our stock-based incentive compensation plan. This includes expense related to options issued in prior years for which the requisite service period for those options includes the current year. No options were issued in the current year. The fair value of these instruments was calculated using the Black-Scholes option pricing model. Information related to the assumptions used in this model is set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

**OPTIMIZERx CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**MARCH 31, 2015**

NOTE 4 – CONTINGENCIES

*Litigation*

The company is currently involved in the following legal proceedings.

In September 2014, we initiated litigation against Shadron Stastney, the Company's previous CEO, in the U.S. District Court in the Eastern District of Michigan as a result of a dispute related to his separation agreement. Mr. Stastney alleged damages related to the non-registration of shares that he was granted as part of his separation agreement signed in September 2013. Under the terms of the contract we are not obligated to register the shares and we deny any obligation to do so. We have requested declarative relief from the court and also requested an injunction from the court preventing Mr. Stastney from continuing to pursue his claims. Mr. Stastney has filed a counterclaim requesting damages of $450,000 related to the nonregistration of his shares.

In March 2015, we initiated litigation against LDM Group, LLC and PDR Network, LLC in the United States District Court in the Eastern District of Missouri related to the breach by LDM, and PDR as successor, of the settlement agreement signed February 28, 2014 related to previous litigation with LDM. LDM has failed to live up to its obligations under the settlement agreement including, but not limited to, not allowing us to distribute our eCoupon programs in the LDM network, not allowing us to distribute the LDM patient education programs, and not providing other information required under the settlement agreement. We are seeking enforcement of the settlement agreement and is seeking damages in an amount at least equal to the amounts paid to date to LDM under the settlement agreement, which approximates $1.0 million, as well as damages for lost income and business value as a result of LDM's breach of the agreement.

In March 2015, we also initiated litigation against PDR Network, LLC in the United States District Court in the District of New Jersey as a result of PDR's breach of the Master Services Agreement between the parties requiring PDR to exclusively use our eCoupon solution. We assert that PDR's acquisition of LDM and the use of the LDM network to distribute coupons by PDR violates the agreement between the parties and is seeking damages in an amount at least equal the amounts paid to date by us to LDM under the settlement agreement, which approximates $1.0 million, as well as damages for lost income and business value as a result of PDR's actions.

In May 2015, we filed an amended complaint in the Missouri case to consolidate the two cases and withdrew the case against PDR Networks in the United States District Court in the District of New Jersey, without predjudice.

In early 2014 we learned that Mr. Milton Wilpon ("Mr. Wilpon") of New Jersey claimed to have obtained a default judgment for approximately $929,000 in the New Jersey Superior Court, Essex County (the "Judgment") against a predecessor of the Company and was seeking to amend the Judgment to add us as a judgment debtor. The Judgment was entered in 2006 when the predecessor of the Company was a dormant shell company and the Judgment allegedly related to a settlement agreement that was breached in 2001 (the "Settlement Agreement"). We appeared in the action and filed a motion to vacate the Judgment on several grounds, including that it appeared that the Summons and Complaint were never properly served and that plaintiff had never filed an arbitration as was required by the Settlement Agreement. In September 2014, the Court granted our motion and vacated the Judgment in its entirety and dismissed the action.

In December 2014, we were served with a copy of a Demand for Arbitration filed by Mr. Wilpon relating to his claims under the Settlement Agreement. On February 24, 2015, we filed an appearance with the AAA objecting to the arbitration on several grounds, including (1) that claims arose in 2001 and are barred by the applicable statute of limitations; (2) plaintiff did not properly serve and file the demand for arbitration and (3) plaintiff has not followed the proper procedure for the appointment of an arbitrator as provided by the Settlement Agreement. We petitioned the AAA to terminate the proceeding and in April 2015, the proceeding was terminated.

**OPTIMIZERx CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**MARCH 31, 2015**

NOTE 5 – RESTATEMENT

We restated our financial statements to correct the way it accounted for certain items related to stock based compensation, revenue share expense, and revenue recognition. The full impact of the restatement was reflected in the December 31, 2014 financial statements at the end of the year. The table below reflects the impact on the 2014 period reflected in this report.

The restated Consolidated Statement of Operations and Consolidated Statement of Cash Flows for the periods ended March 31, 2014 is as follows:

| Three months ended | March 31, 2014 | | Previously |
|---|---|---|---|
| Financial Statement | Line Item | Corrected | Stated |
| Income statement | Revenue | 1,289,428 | 1,317,347 |
| Income statement | Cost of Sales | $561,411 | $498,810 |
| Income statement | Operating expenses | 1,490,218 | 1,471,9 |