INNOVUS PHARMACEUTICALS, INC.
Form 10-Q
August 14, 2014

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

FORM 10-Q

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

For Quarterly Period ended June 30, 2014.

[ ] 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 | 90-0814124 |
|---|---|
| (State or Other Jurisdiction of Incorporation or Organization) | (IRS Employer Identification No.) |
| 9171 Towne Centre Drive, Suite 440, San Diego, CA (Address of Principal Executive Offices) | 92122 (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 [X] 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 (§220.405 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 [X] No [ ]

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

| | |
|---|---|
| Large accelerated filer [ ] | Accelerated filer [ ] |
| Non-accelerated filer [ ] | 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 [ ] No [X]

Outstanding Shares

As of August 11, 2014, the registrant had 23,965,499 shares of common stock outstanding.

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INNOVUS PHARMACEUTICALS, INC.
Condensed Consolidated Balance Sheets
(Unaudited)

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | $ 44,627 | $ 33,374 |
| Accounts receivable | 153,134 | 216,641 |
| Prepaid expenses | 37,105 | 56,472 |
| Inventory | 200,804 | 177,851 |
| Total Current Assets | 435,670 | 484,338 |
| OTHER ASSETS | | |
| Property & equipment, net | 49,615 | 78,973 |
| Deposits | 21,919 | 21,919 |
| Goodwill | 421,372 | 421,372 |
| Intangible assets, net | 1,062,788 | 1,106,831 |
| TOTAL ASSETS | $ 1,991,364 | $ 2,113,433 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | $ 248,427 | $ 143,756 |
| Accrued compensation | 665,333 | 395,667 |
| Deferred revenue | 150,220 | 175,569 |
| Accrued interest payable (current portion) | 32,724 | 3,224 |
| Debentures- related parties | 242,125 | - |
| Notes payable, net of debt discount of $199,045 in 2014 and $0 in 2013 | 480,955 | 370,000 |
| Total Current Liabilities | 1,819,784 | 1,088,216 |
| NON-CURRENT LIABILITIES | | |
| Accrued interest payable (non-current portion) | - | 57,820 |
| Convertible debentures - related parties (non-current portion), net of debt discount of $149,678 | - | 511,465 |
| Contingent consideration | 308,273 | 308,273 |
| Total Non-Current Liabilities | 308,273 | 877,558 |

| | | | | |
|---|---|---|---|---|
| TOTAL LIABILITIES | | 2,128,057 | | 1,965,774 |
| | | | | |
| COMMITMENTS AND CONTINGENCIES | | | | |
| | | | | |
| STOCKHOLDERS' (DEFICIT) EQUITY | | | | |
| | | | | |
| Common stock: 150,000,000 shares authorized, at $0.001 par value, 23,915,499 and 21,548,456 shares issued and outstanding, respectively | | 23,916 | | 21,549 |
| Additional paid-in capital | | 8,769,420 | | 6,531,110 |
| Accumulated deficit | | (8,930,029) | | (6,405,000) |
| | | | | |
| Total Stockholders' (Deficit) Equity | | (136,693) | | 147,659 |
| | | | | |
| TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY | $ | 1,991,364 | $ | 2,113,433 |

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 June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Licensing revenues | $ - | $ - | $ 25,000 | $ - |
| Product sales | 113,784 | 396 | 254,872 | 396 |
| REVENUES | 113,784 | 396 | 279,872 | 396 |
| COST OF GOODS SOLD | 50,546 | 117 | 106,397 | 117 |
| GROSS PROFIT | 63,238 | 279 | 173,475 | 279 |
| OPERATING EXPENSES | | | | |
| Research and development | 54,128 | - | 109,695 | - |
| General and administrative | 1,006,382 | 2,106,975 | 2,291,972 | 2,438,791 |
| Total Operating Expenses | 1,060,510 | 2,106,975 | 2,401,667 | 2,438,791 |
| LOSS FROM OPERATIONS | (997,272) | (2,106,696) | (2,228,192) | (2,438,512) |
| INTEREST EXPENSE | (88,343) | (10,525) | (296,837) | (16,058) |
| NET LOSS | $ (1,085,615) | $ (2,117,221) | $ (2,525,029) | $ (2,454,570) |
| BASIC LOSS AND DILUTED LOSS PER SHARE | $ (0.05) | $ (0.12) | $ (0.11) | $ (0.15) |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC AND DILUTED | 23,807,965 | 16,973,163 | 23,191,829 | 16,614,686 |

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 Six Months Ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | $ (2,525,029) | $ (2,454,570) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Depreciation | 29,358 | - |
| Stock-based compensation | 926,164 | 1,682,510 |
| Common stock, stock units, and stock options issued for services | 285,142 | 195,991 |
| Debt discount | 256,198 | 1,009 |
| Amortization of intangibles | 44,044 | - |
| Changes in operating assets and liabilities, net of acquisition amounts | | |
| Accounts receivable | 63,507 | (280) |
| Prepaid expenses | (1,833) | (2,939) |
| Deposits | 21,200 | (3,200) |
| Inventory | (22,953) | - |
| Accounts payable and accrueds | 104,670 | 92,697 |
| Accrued compensation | 269,666 | 173,676 |
| Interest payable | 40,090 | 10,500 |
| Deferred revenue | (25,349) | - |
| Net Cash Used in Operating Activities | (535,125) | (304,606) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds (Repayment) from notes payable, net | 300,000 | (50,000) |
| Proceeds from stock issued for cash | - | 134,640 |
| Proceeds from debentures - related party | 125,000 | - |
| Proceeds from convertible debt - related party | 121,378 | 339,100 |
| Net Cash Provided by Financing Activities | 546,378 | 423,740 |
| NET CHANGE IN CASH | 11,253 | 119,134 |
| CASH AT BEGINNING OF PERIOD | 33,374 | 18,445 |
| CASH AT END OF PERIOD | $ 44,627 | $ 137,579 |

| | | |
|---|---|---|
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Common stock of 1,855,747 shares issued for conversion of convertible debt | $ 742,300 | |
| Common stock of 631,313 shares issued with the CRI Asset Purchase agreement | | $ 250,000 |

See accompanying notes to these condensed consolidated financial statements.

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

NOTE 1 – NATURE OF OPERATIONS OF THE COMPANY

Innovus Pharmaceuticals, Inc., together with its subsidiaries (collectively referred to as "Innovus" or the "Company") is a San Diego, California based commercial-stage pharmaceutical company that delivers safe and effective non-prescription medicine and consumer care products to improve men's and women's health and vitality.

The Company has four products that are currently being marketed: Zestra®, a non-medicated patented consumer care product that has been clinically proven to increase desire, arousal, and satisfaction in women, EjectDelayTM , an OTC monograph-compliant benzocaine-based topical gel for treating premature ejaculation, Sensum+TM (formally called CIRCUMserumTM,) a non-medicated consumer care cream to increase penile sensitivity (ex-US), and Zestra Glide®, a clinically tested high viscosity water-based lubricant.

NOTE 2 – LIQUIDITY

The Company's operations have been financed primarily through advances from officers, directors and related parties, and to a lesser extent from outside capital and from revenues generated from the recent launch of our products. These funds have provided us with the resources to operate our business, to sell and support our products, attract and retain key personnel, and add new products to our portfolio. To date, we have experienced net losses and negative cash flows from operations each year since our inception. As of June 30, 2014, we had an accumulated deficit of $8,930,029.

We have raised funds through the issuance of debt and the sale of common stock. For the six months ended June 30, 2014 the Company raised $546,378 in funds which include $300,000 from the issuance of a convertible debenture to an unrelated third party in February 2014, $125,000 in proceeds from the issuance of additional non-convertible debt instruments to related parties, as well as $121,378 in proceeds from borrowings under a Convertible Debenture Line of Credit ("LOC Convertible Debenture") that the Company entered into with our President and Chief Executive Officer. The LOC Convertible Debenture provides for a line of credit to us in the amount of up to $1 million through the earlier of our successful completion of a financing of $4 million, or July 2016. Subsequent to the end of the quarter ended June 30, 2014, on July 22, 2014, the parties amended the LOC Convertible Debenture to increase the principal amount that may be borrowed thereunder from up to $1 million to up to $1,500,000 (See Note 10). On February 13, 2014, we entered into a Securities Purchase Agreement with an unrelated third party accredited investor pursuant to which we issued a convertible debenture in the aggregate principal amount of $330,000 (issued at an original issue discount of 10%) which bears interest at the rate of 10% per annum, ("February 2014 Convertible Debenture") and a warrant to purchase 250,000 shares of our common stock (See Note 5). On February 19, 2014, we agreed with the holders of the debentures we previously issued in January 2012 and January 2013 and the holder of the LOC Convertible Debenture, to convert the current principal amount outstanding thereunder, and accrued interest into shares of our common stock. Upon the conversion, the debentures were terminated with the exception of the LOC Convertible Debenture which remains outstanding and under which we may currently borrow up to $1.3 million (See Notes 6 and 10). We have also issued equity instruments where possible to pay for services from vendors and consultants.

As of June 30, 2014, we had $44,627 in cash and cash equivalents, and $0.9 million that increased to $1.3 million, subsequent to June 30, 2014, in cash available for use under the LOC Convertible Debenture. The Company expects that its existing capital resources, revenues from sales of our products, along with the $1.3 million in funds currently available for use under the LOC Convertible Debenture will be sufficient to allow the Company to continue its

operations, commence the product development process, and launch selected products through July 1, 2015. However, the Company's actual needs will depend on numerous factors, including timing of introducing its products to the marketplace, its ability to attract ex-US distributors for its products, its ability to in-license or develop new product candidates and its ability to finalize merger and acquisition activities.

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NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

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. and Semprae Laboratories, Inc. ("Semprae"). 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 financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. 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 June 30, 2014, are not necessarily indicative of the results to be expected for the entire fiscal year ended December 31, 2014 or for any future period. Certain items have been reclassified to conform to the current presentation.

Use of Estimates

The preparation of these 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 financial statements and the reported amounts of revenues and expenses during the reporting periods. Such management estimates include equity-based instruments, revenue recognition, sales adjustments, and intangible assets. The Company bases its estimates on historical experience and on various other assumptions that the Company believes to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions.

Fair Value Measurement

The Company's financial instruments are cash, accounts receivable, accounts payable, accrued liabilities, and debt. The recorded values of cash, trade accounts receivable, accounts payable and accrued liabilities approximate their fair values based on their short-term nature. The Company believes the recorded values of convertible debentures and convertible debt, net of the discount, approximate the fair value as the interest rate (stated or effective) approximates market rates for similar types of instruments.

The Company follows 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 the Company has 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.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments with remaining maturities of three months or less when purchased.

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Concentration of Credit Risk and Major Customers

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and trade accounts receivable. Cash held with financial institutions may exceed the amount of insurance provided by the Federal Deposit Insurance Corporation ("FDIC") on such deposits. Accounts receivable consist primarily of amounts receivable from Ovation Pharma under the Company's licensing agreement (See Note 7) and from sales of Zestra®. The Company also requires a percentage of payment in advance for product orders with its larger partners. The Company performs ongoing credit evaluations of its customers and generally does not require collateral.

As of June 30, 2014 and December 31, 2013, the Company had $153,134 and $216,641, respectively, in accounts receivable. Accounts receivable are presented net of estimated returns and allowances.

The following table identifies customers with accounts receivable that individually exceed 10% of the Company's total accounts receivable at June 30, 2014:

| | | |
|---|---|---|
| Ovation Pharma | $ 110,000 | 72% |
| Walmart | $ 24,304 | 16% |

Subsequent to June 30, 2014, on August 11, 2014, the Company received $25,000 from Ovation Pharma.

Concentration of Suppliers

The Company has manufacturing relationships with a number of vendors or manufacturers for its products including: Sensum+TM, EjectDelayTM, and the Zestra® line of products. Pursuant to these relationships, the Company purchases product through purchase orders with its manufacturers. The Company is in the process of entering into more formal agreements with certain of these manufacturers.

Inventory

Inventory, consisting primarily of finished goods, is valued at the lower of cost or market where cost is determined using the first-in, first-out method. The inventory balance at June 30, 2014 is primarily comprised of finished goods for Zestra®, Zestra Glide®, and EjectDelayTM. Inventory is shown net of obsolescence and allowance for reducing the inventory cost to market. Obsolescence of inventory is determined based on shelf life or potential product replacement.

Property and Equipment

Property and equipment are recorded at historical cost less accumulated depreciation. Depreciation is computed using the straight-line method over their estimated useful lives ranging from 3 to 5 years. The initial cost of property and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Intangible Assets

Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives, which range in term from 7 to 14 years. The useful life of the intangible asset is evaluated each reporting period to determine whether events and circumstances warrant a revision to the remaining useful life.

| | Amount | Accumulated Amortization | Net Amount | Useful Lives (years) |
|---|---|---|---|---|
| Patents and trademarks | $ 264,321 | $ (599) | $ 263,722 | 7 - 14 |
| Customer contracts | 611,119 | (43,303) | 567,816 | 10 |
| Sensum+™ (formally called CIRCUMserum™) license | 250,000 | (18,750) | 231,250 | 10 |
| Outstanding at June 30, 2014 | $ 1,125,440 | $ (62,652) | $ 1,062,788 | |

Expected amortization as of June 30, 2014 is approximately $109,060 for each of the next five years, and $517,492 thereafter.

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Goodwill

The Company tests its goodwill for impairment annually, or whenever events or changes in circumstances indicates an impairment may have occurred, by comparing its reporting unit's carrying value to its implied fair value. Impairment may result from, among other things, deterioration in the performance of the acquired business, adverse market conditions, adverse changes in applicable laws or regulations and a variety of other circumstances. If the Company determines that an impairment has occurred, it is required to record a write-down of the carrying value and charge the impairment as an operating expense in the period the determination is made. In evaluating the recoverability of the carrying value of goodwill, the Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the acquired assets. Changes in strategy or market conditions could significantly impact those judgments in the future and require an adjustment to the recorded balances. The goodwill was recorded as part of the acquisition of Semprae that occurred on December 24, 2013. There was no impairment of goodwill for the three and six months ended June 30, 2014 or the year ended December 31, 2013.

The Semprae purchase price allocation was based upon an analysis of the fair value of the assets and liabilities acquired from Semprae. The final purchase price may be adjusted up to one year from the date of the acquisition. Identifying the fair value of the tangible and intangible assets and liabilities acquired required the use of estimates by management, and were based upon currently available data, as noted below (See Note 8).

The Company allocated the excess of purchase price over the identifiable intangible and net tangible assets to goodwill. Such goodwill is not deductible for tax purposes and represents the value placed on entering new markets and expanding market share.

Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. The Company evaluates assets for potential impairment by comparing estimated future undiscounted net cash flows to the carrying amount of the asset. If the carrying amount of the assets exceeds the estimated future undiscounted cash flows, impairment is measured based on the difference between the carrying amount of the assets and fair value.

Financial Instruments

If a conversion feature of conventional convertible debt is not accounted for separately as a derivative instrument and provides for a rate of conversion that is below market value, this feature is characterized as a beneficial conversion feature (“BCF”). A BCF is recorded by the Company as a debt discount. The Company amortizes the discount to interest expense over the life of the debt using the effective interest rate method. The Company’s February 2014 Convertible Debenture, contains a BCF (See Note 5). The Company’s January 2012 and January 2013 Debentures, and LOC Convertible Debenture, which contained an embedded conversion feature, were converted on February 19, 2014 (See Note 6).

Income Taxes

Income taxes are provided for using the asset and liability method whereby deferred tax assets and liabilities are recognized using current tax rates on the difference between the financial statement carrying amounts and the respective tax basis of the assets and liabilities. The Company provides a valuation allowance on deferred tax assets when it is more likely than not that such assets will not be realized.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting this standard, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

Revenue Recognition, Trade Receivables and Deferred Revenue

The Company generates revenues from product sales and the licensing of the rights to market and commercialize its products.

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The Company recognizes revenue in accordance with 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) delivery has occurred or services have been rendered; (3) price to the buyer is fixed or determinable; and (4) collectability is reasonably assured.

Product Sales. The Company ships product to its customers pursuant to purchase agreements or 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.

License Arrangements. Payments received by the Company under license arrangements to market and commercialize its products may include non-refundable upfront fees, license fees, milestone payments for specific achievements designated in the agreements, and royalties on sales of products. The Company considers a variety of factors in determining the appropriate method of accounting under its license arrangements, including whether the various elements can be separated and accounted for individually as separate units of accounting.

Sales Allowances

The Company accrues for product returns, volume rebates and promotional discounts in the same period the related sale is recognized.

The Company's 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. The Company estimates its volume rebates and promotional discounts accrual based on its estimates of the level of inventory of its 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 the Company's 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.

The Company provides a customer satisfaction warranty on all of its 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 receivable, was $20,605 at June 30, 2014 and $25,566 at December 31, 2013.

Cost of Goods Sold

Cost of goods sold includes the cost of inventory, royalties and inventory reserves. The Company is required to make royalty payments based upon the net sales of two of its marketed products, Zestra® and Sensum+TM.

Research and Development Costs

Research and development ("R&D") costs, including research performed under contract by third parties, are expensed as incurred. Major components of R&D expenses consist of testing, post marketing clinical trials, material purchases and regulatory affairs.

Stock-based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718, Stock Based Compensation, which requires the recognition of the fair value of stock-based compensation as an expense in the calculation of net income. ASC 718 requires that stock-based compensation expense be based on awards that are ultimately expected to vest. Stock-based compensation for the three and six months ended June 30, 2014 and 2013, respectively, have been reduced for estimated forfeitures. When estimating forfeitures, voluntary termination behaviors, as well as trends of actual option forfeitures, are considered. To the extent actual forfeitures differ from the Company's current estimates, cumulative adjustments to stock-based compensation expense are recorded.

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Except for transactions with employees and directors that are within the scope of ASC 718, all transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable.

Equity Instruments Issued to Non-Employees for Services

Issuances of the Company's equity for services are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, whichever is more reliably measurable. The measurement date for the fair value of the equity instruments issued to consultants is determined at the earlier of (a) the date at which a commitment for performance to earn the equity instruments is reached (a "performance commitment" which would include a penalty considered to be of a magnitude that is a sufficiently large disincentive for nonperformance) or (b) the date at which performance is complete, and is based upon the quoted market price of the common stock at the date of issuance (See Note 9).

Comprehensive Loss

Comprehensive loss consists of net loss and other gains and losses affecting stockholders' equity (deficit) that, under U.S. GAAP, are excluded from net loss. Comprehensive loss was the same as net loss for the three and six months ended June 30, 2014 and 2013, respectively, as the Company has no other comprehensive income.

Earnings per Share

Basic earnings per share are computed by dividing net loss by the weighted average number of common shares outstanding during the period presented. Diluted earnings per share are computed using the weighted average number of common shares outstanding during the periods plus the effect of dilutive securities outstanding during the periods. For the six months ended June 30, 2014 and 2013, respectively, basic earnings per share are the same as diluted earnings per share as a result of the Company's common stock equivalents being anti-dilutive due to losses of $2,525,029 and $2,454,570, respectively.

The following reconciliation shows the anti-dilutive shares excluded from the calculation of basic and diluted loss per common share attributable to the Company as of June 30, 2014 and 2013:

| | As of June 30 | |
|---|---|---|
| | 2014 | 2013 |
| Gross number of shares excluded: | | |
| Restricted stock units | 7,937,791 | 7,050,000 |
| Stock Options | 62,000 | 30,000 |
| Convertible notes payable | 825,000 | 8,903,813 |
| Warrants | 630,973 | 380,973 |
| Total | 9,455,764 | 16,364,786 |

Recent Accounting Pronouncements

In February 2013, the FASB issued Accounting Standards Update ("ASU") No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income ("AOCI"). This standard requires reporting, in one place, information about reclassifications out of AOCI by component. An entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount is reclassified in its entirety in the same reporting period. For amounts that

are not required to be reclassified to net income in their entirety, an entity is required to cross-reference to other currently required disclosures that provide additional detail about those amounts. The information required by this standard must be presented in one place, either parenthetically on the face of the financial statements by income statement line item or in a note. The adoption of ASU 2013-02 had no impact on the Company's financial position or results of operations.

In March 2013, the FASB issued amendments to address the accounting for the cumulative translation adjustment when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. The amendments are effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013 (early adoption is permitted). The adoption of the amendment had no impact on the Company's financial position or results of operations.

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In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. This update states a core principle in that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve the core principle, an entity should apply the following steps: 1) identify the contract(s) with the customer, 2) identify the performance obligations in the contract, 3) determine the transaction price, 4) allocate the transaction price to the performance obligation in the contract, and 5) recognize revenue when (or as) the entity satisfies a performance obligation. The amendments in the update are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted.

In June 2014, the FASB issued ASU No. 2014-10, Development Stage Entities. This update removes the definition of a development stage entity from the Master Glossary of the Accounting Standards Codification, thus removing the financial reporting distinction between development stage entities and other reporting entities from U.S. GAAP. This includes eliminating the requirements for development stage entities to (1) present inception-to-date information in the statements of income, cash flows, and shareholder equity, (2) label the financial statements as those of a development stage entity, (3) disclose a description of the development stage activities in which the entity is engaged, and (4) disclose in the first year in which the entity is no longer a development stage entity that in prior years it has been in the development stage. Also, the update included a clarification that Topic 275, Risks and Uncertainties is applicable to entities that have not commenced planned principal operations and removed paragraph 810-10-15-16 that stated that a development stage entity does not meet the condition in paragraph 810-10-15-14(a) to be a variable interest entity if the entity demonstrated certain criteria and its governing documents allow additional equity investments. The update relating to the elimination of disclosure requirements for a development stage entity is effective retrospectively for annual reporting periods beginning after December 15, 2014 and interim periods therein. The update relating to Topic 275 is effective prospectively for annual reporting periods beginning after December 15, 2014 and interim periods therein. The update relating to eliminating paragraph 810-10-15-16 is effective retrospectively for annual reporting periods beginning after December 15, 2015 and interim periods therein. Early application is permitted. The adoption of the update has been applied to these financial statements and had no impact on the Company's financial position or results of operations.

NOTE 4 – RELATED PARTY TRANSACTIONS

CEO Promissory Note

On January 29, 2014, the Company issued an 8% note in the amount of $25,000, to the Company’s President and Chief Executive Officer. The principal amount and interest are payable on January 22, 2015. (See Note 6).

Board Member Debenture

On May 30, 2014, the Company issued an 8% debenture in the amount of $50,000, to a member of the Company's Board of Directors. The principal amount and interest are payable on May 30, 2015 (See Note 6).

CFO Debenture

On June 17, 2014, the Company issued an 8% debenture in the amount of $50,000, to the Company’s Chief Financial Officer. The principal and interest are payable on June 16, 2015 (See Note 6).

Convertible Debentures

The Company had several convertible debentures, along with the LOC Convertible Debenture, outstanding to related parties, which were converted to common stock (See Note 6).

Accrued Compensation-Related Party

Accrued compensation includes accruals for employee wages and vacation pay. The components of accrued compensation are as follows:

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Wages | $ 582,188 | $ 352,398 |
| Vacation | 83,145 | 43,269 |
| Total accrued compensation | $ 665,333 | $ 395,667 |

Accrued employee wages relate primarily to wages owed to the Company’s Chief Executive Officer and President. Under the terms of his employment agreement, wages are to be accrued but no payment made for so long as payment of such salary would jeopardize the Company’s ability to continue as a going concern.

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NOTE 5 – NOTES PAYABLE

The following table summarizes the outstanding unsecured (non-related party) notes payable at June 30, 2014 and December 31, 2013:

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| December 2013 Debenture | $ 350,000 | $ 350,000 |
| February 2014 Convertible Debenture | 330,000 | - |
| January 2013 Debenture-non related party | - | 20,000 |
| Total | 680,000 | 370,000 |
| Less: Debt discount, net of accretion | (199,045) | - |
| | $ 480,955 | $ 370,000 |

December 2013 Debenture

On December 23, 2013, the Company issued an 8% debenture to an unrelated third party accredited investor in the principal amount of $350,000 (the “December 2013 Debenture”). The December 2013 Debenture bears interest at the rate of 8% per annum. The principal amount and interest are payable on August 31, 2014. Dr. Bassam Damaj, the President and Chief Executive Officer of the Company, has personally guaranteed payment of the principal and interest under the December 2013 Debenture in the case of any event of default by the Company.

February 2014 Convertible Debenture

On February 13, 2014, the Company entered into a Securities Purchase Agreement with an unrelated third party accredited investor pursuant to which the Company issued a convertible debenture in the aggregate principal amount of $330,000 (issued at an original issue discount of 10%)(the “February 2014 Convertible Debenture”) and a warrant to purchase 250,000 shares of the Company's common stock (“Warrant Agreement”).

The February 2014 Convertible Debenture bears interest at the rate of 10% per annum and the principal amount and interest are payable on March 13, 2015. The effective interest rate will be calculated considering the original issue discount, the beneficial conversion feature and warrants. It may be converted in whole or in part at any time prior to March 13, 2015, by the holder at a conversion price of $0.40 per share, subject to adjustment. The Company has the option to redeem the February 2014 Convertible Debenture before its maturity by payment in cash of 125% of the then outstanding principal amount plus accrued interest and other amounts due.

The February 2014 Convertible Debenture was issued with an original issue discount of $30,000. The original issue discount has been included in the balance sheet as a discount to the related debt security and is being accreted as non-cash interest expense over the expected term of the loan.

The Warrant Agreement provides the holder with the right to acquire up to 250,000 shares of common stock at an exercise price of $0.50 per share, subject to certain adjustments as described in the Warrant Agreement, at any time through the fifth anniversary of its issuance date. The allocated relative fair value of the warrant of $96,533 has been included in the balance sheet as a discount to the related debt security and is being accreted as non-cash interest expense over the expected term of the loan.

The February 2014 Convertible Debenture contains a beneficial conversion feature related to the notes. The intrinsic value of the beneficial conversion feature at the date of issuance was determined by measuring the difference between the accounting conversion price and the intrinsic value of the stock at the commitment date. The Company

recorded a debt discount for the intrinsic value of the beneficial conversion feature which was limited to the proceeds with an offsetting increase to paid-in-capital. The beneficial conversion of $179,032 along with the original issue discount of $30,000, has been included in the balance sheet at June 30, 2014 as a discount to the related debt security, and is being accreted as non-cash interest expense over the expected term of the loan using the effective interest method.

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Interest Expense

The Company recognized interest expense on the December 2013 Debentures and the February 2014 Convertible Debentures, including amortization of debt discount of $85,962 and $0 for the three months ended June 30, 2014 and 2013 and $136,143 and $0 for the six months ended June 30, 2014 and 2013, respectively.

NOTE 6 –DEBENTURES – RELATED PARTIES

The following table summarizes the outstanding debentures to related parties at June 30, 2014 and December 31, 2013. Certain of the debentures outstanding for the year ended December 31, 2013 were converted in 2014 and were no longer outstanding at June 30, 2014.

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| January 2012 Debentures | $ - | $ 142,668 |
| January 2013 Debentures | - | 70,000 |
| LOC Convertible Debenture | 117,125 | 448,475 |
| Debentures – related party (See Note 4) | 125,000 | - |
| Total | 242,125 | 661,143 |
| Less : Debt Discount, net of accretion | - | (149,678) |
| | $ 242,125 | $ 511,465 |

January 2012 Debentures

In January 2012, the Company issued 8% convertible debentures in the aggregate principal amount of $174,668 (the “January 2012 Debentures”) to six individuals. Under their original terms, the January 2012 Debentures were payable in cash at the earlier of January 13, 2013 or when the Company completes a financing with minimum gross proceeds of $4 million (the “Financing”), the holders had the right to convert outstanding principal and interest accrued into the Company’s securities that were issued to the investors in the Financing.

During 2012, $12,000 (plus accrued interest of $435) of the January 2012 Debentures were converted into 16,580 shares of common stock, leaving an aggregate principal balance of $162,668 at December 31, 2012.

During 2013, four of the five holders of the outstanding January 2012 Debentures agreed to amend and restate the debentures to provide for automatic conversion into securities of the Company upon the earlier of either (a) the closing of the Financing and (b) July 1, 2016.

The fifth holder of the January 2012 Debentures in the amount of $20,000 did not amend the debenture and it was classified as a short term note payable as of December 31, 2013 (See Note 5).

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The January 2012 Debentures contained a beneficial conversion feature of $40,889 which had been included in the balance sheet at December 31, 2013 as a discount to the related debt security, and was being accreted as non-cash interest expense over the expected term of the loan using the effective interest method.

On February 19, 2014, the Company agreed with all five holders of the January 2012 Debentures, to convert such debentures into shares of the Company's common stock at a conversion price of $0.40 per share, and to terminate the January 2012 Debentures upon conversion. Immediately prior to conversion, the January 2012 Debentures had an aggregate principal and interest amount of $190,013, which was converted into 475,032 shares of the Company's common stock and terminated. The remaining discount of $37,195 related to the beneficial conversion feature was recorded as interest expense.

January 2013 Debenture

In January 2013, the Company issued a convertible debenture in the principal amount of $70,000 to a director of the Company (the "January 2013 Debenture") with terms identical to those of the January 2012 Debentures. In 2013, the terms were amended to provide for automatic conversion into securities of the Company upon the earlier of either (a) the closing of the Financing and (b) July 1, 2016.

The January 2013 Debenture contained a beneficial conversion feature of $18,651 which was included in the balance sheet at December 31, 2013 as a discount to the related debt security, and was accreted as non-cash interest expense over the expected term of the loan using the effective interest method.

On February 19, 2014, the Company agreed with the holder of the January 2013 Debenture to convert such debenture on the same terms described above for the January 2012 Debentures. The principal and interest amount owed under the January 2013 Debenture immediately prior to conversion was $76,122, which was converted into 190,304 shares of the Company's common stock and terminated. The remaining discount of $16,965 related to the beneficial conversion feature was recorded as interest expense.

Line of Credit – Convertible Debenture

In January 2013, the Company issued a convertible debenture in the principal amount of $70,000 to a director of the Company (the "January 2013 Debenture") with identical terms to those of the January 2012 Debentures. In 2013, the terms were amended to provide for automatic conversion into securities of the Company upon the earlier of either (a) the closing of the Financing or (b) July 1, 2016.

In January 2013, the Company entered into a line of credit convertible debenture with its President and Chief Executive Officer (the "LOC Convertible Debenture"). Under the terms of its original issuance: (1) the Company could request to borrow up to a maximum principal amount of $250,000 from time to time; (2) amounts borrowed bore an annual interest rate of 8%; (3) the amounts borrowed plus accrued interest is payable in cash at the earlier of January 14, 2014 or when the Company completes a Financing; and (4) the holder had sole discretion to determine whether or not to make an advance upon the Company's request.

During 2013 the LOC Convertible Debenture was further amended to: (1) increase the maximum principal amount borrowable to $1 million; and (2) change the holder's funding commitment to automatically terminate on the earlier of either (a) when the Company completes a financing with minimum net proceeds of at least $4 million or (b) July 1, 2016. The securities to be issued upon automatic conversion will be either the Company's securities that are issued to the investors in the Financing or, if the Financing does not occur by July 1, 2016, shares of the Company's common stock based on a conversion price of $0.312 per share. The debenture continues to bear interest at a rate of 8% per annum. The other material terms of the debenture were not changed.

During the year ended December 31, 2013, the Company borrowed $448,475. The LOC Convertible Debenture contained a beneficial conversion feature of $98,335 which was included in the balance sheet at December 31, 2013 as a discount to the related debt security, and accreted as non-cash interest expense over the expected term of the loan using the effective interest method.

On February 19, 2014, the Company agreed with the holder of the LOC Convertible Debenture to convert the then outstanding principal and interest owed as of such date into shares of the Company's common stock at a conversion price of $0.40 per share. The principal and interest amount owed under the LOC Convertible Debenture immediately prior to conversion was $476,165, which was converted into 1,190,411 shares of the Company's common stock. The debt discount of $89,452 related to the beneficial conversion feature for the converted portion was recorded as interest expense.

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During the six months ended June 30, 2014 and year ended December 31, 2013, the Company borrowed $117,125 and $448,475, respectively under the LOC Convertible Debenture. As of June 30, 2014, the Company owed a balance of $117,125 in principal amount under the LOC Convertible Debenture, and there was $0.9 million remaining available to use.

On July 22, 2014, the Company agreed with the holder of the LOC Convertible Debenture to increase the principal amount that may be borrowed from up to $1,000,000 to up to $1,500,000 (See Note 10).

Interest Expense

The Company recognized interest expense on the January 2012 Debentures, the January 2013 Debenture and the LOC Convertible Debenture including amortization of the discount, of $2,043 and $10,525 for the three months ended June 30, 2014 and 2013 and $154,219 and $16,058 for the six months ended June 30, 2014 and 2013, respectively .

NOTE 7 – LICENSE AGREEMENTS

CRI License Agreement

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

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

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

CRI has retained commercialization rights for Sensum+TM in the United States.

In consideration for such assets and license, the Company agreed to issue to CRI shares of the Company's common stock valued at $250,000 within 10 days of the closing. The Company issued 631,313 shares to CRI in this regard. The Company will be required to issue to CRI shares of the Company's common stock valued at an aggregate of $200,000 for milestones relating to additional clinical data received. The number of shares to be issued was or will be determined based on the average of the closing price for the 10 trading days immediately preceding the issue date. CRI will have certain "piggyback" registration rights with respect to the shares described above, which rights provide that, if the Company registers shares of its common stock under the Securities Act in connection with a public offering, CRI will have the right to include such shares in that registration, subject to certain exceptions. The Company recorded an asset totaling $250,000 related to the CRI Asset Purchase Agreement and will amortize this amount over its estimated useful life of 10 years. The Company recorded amortization of $16,736 beginning in the fourth quarter of 2013 when we commenced usage. The accumulated amortization at June 30, 2014 is $18,750.

The CRI Asset Purchase Agreement also requires the Company to pay to CRI up to $7 million in cash milestone payments based on first achievement of annual net sales targets plus a royalty based on annual 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 United States, whichever is sooner. No sales milestones have been met under this agreement, and royalties owed to CRI were immaterial and included in net revenues.

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Ovation Pharma Agreements

On September 9, 2013, the Company entered into a license and distribution agreement with Ovation Pharma SARL ("Ovation") under which it granted to Ovation an exclusive license to market and sell the Company's topical treatment for reduced penile sensitivity, Sensum+TM , in Morocco. Ovation may pay the Company up to approximately $11.3 million upon achievement of commercial milestones. In addition, Ovation has agreed to certain upfront minimum purchases of Sensum+TM based upon an agreed upon transfer price and yearly minimum purchases.

On September 9, 2013 the Company entered into a second license and distribution agreement with Ovation under which it granted to Ovation an exclusive license to market and sell the Company's topical premature ejaculation treatment, EjectDelayTM , in Morocco. Ovation may pay the Company up to approximately $18.6 million allocated among a fixed upfront license fee and the achievement of regulatory and commercial milestones. In addition, Ovation has agreed to certain upfront minimum purchases of EjectDelayTM based upon an agreed upon transfer price and minimum yearly purchases.

The Company determined that the fixed upfront license fee payment was a separate deliverable under the EjectDelayTM license and distribution agreement and therefore recorded a receivable on its balance sheet. There were no additional obligations or deliverables associated with the license. However, as of December 31, 2013, as Ovation had not yet received necessary government authorization to make the payment, the Company will recognize the license fee when received. In February 2014, authorization was received and the Company received partial payment of this license fee. Subsequent to quarter ended June 30, 2014, on August 11, 2014, the Company received an additional $25,000 for partial payment of this license fee.

In January of 2014, the Company received the first purchase order from Ovation, and a partial payment for the product. The remainder of the payment for the product will be received when the product is shipped. The Company has recorded deferred revenue related to the product order, and will recognize upon shipment of the product.

NOTE 8- BUSINESS ACQUISITIONS

Purchase of Semprae Laboratories, Inc.

On December 24, 2013 (the "Closing Date"), the Company, through its wholly-owned subsidiary, Innovus Acquisition Corporation, obtained 100% of the outstanding shares of Semprae Laboratories, Inc. ("Semprae"), in exchange for the issuance of 3,201,776 shares of the Company's common stock, which shares represented fifteen percent (15%) of the total issued and outstanding shares of the Company as of the close of business on the Closing Date, whereupon Innovus Acquisition Corporation was renamed Semprae Laboratories, Inc. Also, the Company agreed to pay $343,500 to the New Jersey Economic Development Authority ("NJEDA") as settlement-in-full for an outstanding loan of approximately $640,000 owed by the former stockholder's of Semprae, in full satisfaction of the obligation to the NJEDA. In addition, the Company agreed to pay the former stockholders of Semprae, an annual royalty ("Royalty") equal to five percent (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 fair market value of the Company's common stock as of the Closing Date was $0.30 per share, which results in a fair market value of $960,530 for 3,201,776 shares of the Company's common stock issued to the former stockholders of Semprae at the closing. The fair market value of the shares of common stock issued was determined by quoted market prices that are considered to be Level 1 inputs under the fair value measurements and disclosure guidance.

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The agreement to pay the 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 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. Based on the assumptions, the fair value of the Royalty was determined to be $308,273 at the date of acquisition. The fair value of the Royalty was determined by applying the income approach, using several significant unobservable inputs for projected cash flows and a discount rate of 40% commensurate with the Company's cost of capital and expectation of the revenue growth for products at their life cycle stage. These inputs are considered Level 3 inputs under the fair value measurements and disclosure guidance. There was no change in the fair value of the contingent consideration between December 24, 2013 (acquisition date) and June 30, 2014.

The transaction has been accounted for as a business combination under the acquisition method of accounting. Accordingly, the tangible assets and identifiable intangible assets acquired and liabilities assumed have been recorded at fair value, with the remaining purchase price recorded as goodwill. The fair values of acquired assets and liabilities are based on preliminary cash flow projections and other assumptions. The preliminary fair values of acquired intangible assets were determined using several significant unobservable inputs for projected cash flows and a discount rate. These inputs are considered Level 3 inputs under the fair value measurements and disclosure guidance. The purchase price allocation was based upon an analysis of the fair value of the assets and liabilities acquired from Semprae. The final purchase price may be adjusted up to one year from the date of the acquisition.

As a result of the acquisition, the Company acquired all of Semprae's assets and liabilities, including its two women's products, which were added to the Company's current portfolio of male sexual dysfunction products and other topical products. Semprae also maintains a number of international patents and trademarks on its two products.

The aggregate purchase price consideration was as follows:

| | |
|---|---|
| Fair value of common stock issued to Semprae shareholders | $ 960,530 |
| Fair value of contingent royalty payments | 308,273 |
| Net purchase price consideration | $ 1,268,803 |

The fair values of assets acquired and liabilities assumed at the transaction date are summarized below:

| | |
|---|---|
| Cash and cash equivalents | $ 3,749 |
| Accounts receivable | 78,445 |
| Inventory | 180,441 |
| Prepaid expenses | 16,362 |
| Property and equipment | 78,973 |
| Customer contracts | 611,119 |
| Patents | 99,894 |
| Trademarks | 160,278 |
| Goodwill | 421,372 |
| Accounts Payable | (38,330) |
| Debt | (343,500) |
| | |
| Net Assets Acquired | $ 1,268,803 |
| | |
| Common Stock | 960,530 |
| Fair Market Value of Contingent Consideration - Royalty | 308,273 |
| Net Purchase Price Consideration | $ 1,268,803 |

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Supplemental Pro Forma Information for 2013 Acquisition (unaudited)

The following unaudited supplemental pro forma information for the three and six months ended June 30, 2013 assumes the contribution of Semprae had occurred as of January 1, 2013, giving effect to purchase accounting adjustments. The pro forma data is for informational purposes only and may not necessarily reflect the actual results of operations had Semprae been operated as part of the Company since January 1, 2013.

| | Three Months Ended June 30, 2013 | | Six Months Ended June 30, 2013 | |
|---|---|---|---|---|
| | As Reported | Pro Forma (unaudited) | As Reported | Pro Forma (unaudited) |
| Revenue | $396 | $197,839 | $396 | $430,995 |
| Net Loss (1) | $(2,117,221) | $(2,620,974) | $(2,454,570) | $(3,518,077) |
| Loss per common share - basic and diluted | $(0.12) | $(0.13) | $(0.15) | $(0.18) |
| Shares used in computed net loss per common share | 16,973,163 | 20,174,939 | 16,614,686 | 19,816,462 |

(1) The pro forma net loss includes adjustments for interest expense related to the assumption of debt, and amortization expense related to the intangible assets acquired.

NOTE 9 – SHAREHOLDERS' EQUITY

Capital Stock

The Company is authorized to issue 150.0 million shares, all of which are common stock with a par value of $.001 per share.

Issuances of Common Stock

On January 17, 2013, the Company entered into an investor relations agreement with a third party pursuant to which the Company agreed to issue over the term of the agreement an aggregate of 250,000 shares of common stock in exchange for investor relations' services to be rendered. On September 18, 2013, the Company extended the term of the investor relations agreement, and agreed to issue an additional aggregate of 300,000 shares of common stock in exchange for investor relations' services to be rendered over the term of the agreement. The term was further extended in April 2014, and agreed to issue and additional aggregate of 300,000 shares of common stock in exchange for investor relations' services to be rendered over the term of the agreement.

During the six months ended June 30, 2014 and 2013, the Company issued 300,000 shares, and 250,000 shares, respectively under the terms of the investor relations agreement. All issued shares have been valued at the closing price of the Company's common stock on the date of issuance. The Company recognized expense of $82,500 and $85,950 under the investor relations agreement during the three months ended June 30, 2014 and 2013, respectively and $126,500 and $133,450 during the six months ended June 30, 2014 and 2013, respectively.

On June 28, 2013, the Company entered into an agreement with a consultant to provide drug development pre-clinical consulting services for Sensum+TM and EjectDelayTM. In consideration of such services, the Company agreed to issue the consultant shares of its common stock. As of June 30, 2014, the studies have completed and the consulting services have terminated. During the six months ended June 30, 2014 the Company issued 126,296 shares to the consultant, which were valued at the closing price of the Company's common stock on the date of issuance. The

aggregate value of the shares issued was $55,521, which corresponds to the service period of the consultant's services.

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The Company issued an additional 85,000 shares of common stock to other consultants under consulting agreements for the six months ended June 30, 2014. The shares were issued under the Company's 2013 Equity Incentive Plan. All issued shares have been valued at the closing price of the Company's common stock on the date of issuance. The aggregate value of the shares issued was $37,900 for the six months ended June 30, 2014.

Equity Plan

The Company has issued share-based stock, stock unit and option awards to employees, non-executive directors and outside consultants under the Company's 2013 Equity Incentive Plan (the "Incentive Plan"), which was approved by the Company's Board of Directors in February of 2013. The Incentive Plan allows for the issuance of 10,000,000 shares of the Company's common stock to be issued in the form of stock options, stock awards, stock unit awards, stock appreciation rights, performance shares and other share-based awards. The exercise price for all equity awards issued under the Incentive Plan is based on the fair market value of the common stock. Currently, because the Company's common stock is quoted on the OTC Bulletin Board, the fair market value of the common stock is equal to the last-sale price reported by the OTC Bulletin Board as of the date of determination, or if there were no sales on such date, on the last date preceding such date on which a sale was reported. Generally, each vested stock unit entitles the recipient to receive one share of Company common stock which is eligible for settlement at the earliest of their termination, a change in control of the Company or a specified date. Stock units can vest according to a schedule or immediately upon award. Stock options generally vest over a three-year period, first year cliff vesting with quarterly vesting thereafter on the three-year awards, and have a ten-year life. Stock options outstanding are subject to time-based vesting as described above and thus are not performance-based.

As of June 30, 2014, there were 7,937,791 stock units and 62,000 shares subject to options outstanding, the Company issued 778,937 shares as payments for services, and 1,221,272 shares were available for future grants under the Incentive Plan.

Stock-based Compensation

The stock-based compensation expense for the three and six months ended June 30, 2014 was $361,938, and $926,164, respectively for the issuance of stock units and stock options. The stock-based compensation expense for the three and six months ended June 30, 2013 was $1,612,647 and $1,682,510, respectively. The Company calculates the fair value of the stock units based upon the quoted market value of the common stock at the date of grant. The Company calculates the fair value of each stock option award on the date of grant using the Black-Scholes option-pricing model. For the six months ended June 30, 2014, the following weighted average assumptions were utilized for the stock option granted during the period:

| | June 30, 2014 |
|---|---|
| Expected life (in years) | 6.0 |
| Expected volatility | 231.25% |
| Average risk free interest rate | 1.88% |
| Dividend yield | 0% |

The dividend yield of zero is based on the fact that the Company has never paid cash dividends and has no present intention to pay cash dividends. Expected volatility is based on the historical volatility of the Company's common shares over the period commensurate with the expected life of the options. Expected life in years is based on the "simplified" method as permitted by ASC Topic 718. The Company believes that all stock options issued under its stock option plans meet the criteria of "plain vanilla" stock options. The Company uses a term of 6 years for all employee stock options. The risk free interest rate is based on average rates for 5 and 7 year treasury notes as published by the

Federal Reserve.

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The following table summarizes the number of options outstanding and the weighted average exercise price:

| | Options | Weighted average exercise price | Weighted remaining contractual life (years) | Aggregate intrinsic value |
|---|---|---|---|---|
| Outstanding at December 31, 2013 | 21,000 | $ 0.64 | 9.9 | $ - |
| Granted | 41,000 | 0.34 | 9.9 | - |
| Exercised | - | - | - | - |
| Cancelled | - | - | - | - |
| Forfeited | - | - | - | - |
| Outstanding at June 30, 2014 | 62,000 | 0.44 | 9.7 | $ - |
| Vested at June 30, 2014 | 62,000 | $ 0.44 | 9.7 | $ - |

The aggregate intrinsic value is calculated as the difference between the exercise price of all outstanding options and the quoted price of the Company's common shares that were in the money at June 30, 2014. At June 30, 2014 and December 31, 2013, the aggregate intrinsic value of all outstanding options was $0.

The Company granted 41,000 and 51,000 options during the six months ended June 30, 2014 and the year ended December 31, 2013, respectively. The weighted average grant date fair value per share of options granted during the six months ended June 30, 2014 and the year ended December 31, 2013 was $0.34 and $0.46, respectively.

Stock Units

The following table summarizes the number of stock units outstanding:

| | Restricted Stock Units |
|---|---|
| Outstanding at December 31, 2013 | 6,311,250 |
| Granted | 1,626,541 |
| Expired | - |
| Cancelled | - |
| Forfeited | - |
| Outstanding at June 30, 2014 | 7,937,791 |
| Vested at June 30, 2014 | 5,596,119 |

The vested stock units at June 30, 2014 have not settled and are not showing as issued and outstanding shares of the Company. Settlement of these vested stock units will occur on the earliest of (i) the date of termination of service of the employee or consultant, (ii) change of control of the Company, or (iii) 10 years from date of issuance. Settlement of vested stock units may be made in the form of (i) cash, (ii) shares, or (iii) any combination of both, as determined by the committee.

On February 15, 2013, the Company entered into a stock unit agreement with its President and Chief Executive Officer pursuant to his employment agreement. Under the terms of the agreement, the Company issued 6,000,000 stock units, 2,000,000 of the units vested immediately, while the remaining 4,000,000 vest in eight equal quarterly installments until January 1, 2015, subject to his continued service to the Company as of the vesting date.

On February 15, 2013, the Company entered into a stock unit agreement with a consultant. Under the terms of the agreement, the Company issued 300,000 stock units, with one thirty-sixth of the units vesting on the 7 th day of each month beginning on March 7, 2013, subject to the consultant's continued service to the Company as of the vesting date. At June 30, 2014, 133,328 shares have vested under this agreement. There were 49,998 stock units which vested during the six months ended June 30, 2014 and the Company recognized expense of $20,999 which corresponds to the service period.

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In connection with the appointment of Ms. Dillen as Executive Vice President, Chief Financial Officer, the Company entered into an employment letter with her on February 6, 2014. Under the terms of the employment letter, Ms. Dillen received 600,000 stock units. 200,000 of the units will vest after 6 months of employment, while the remaining 400,000 will vest in eight equal quarterly installments until August 6, 2016, subject to her continued service to the Company as of the vesting date. Ms. Dillen is also eligible to receive a grant of 100,000 stock units when the Company's shares of common stock are listed on Nasdaq, all subject to Ms. Dillen's continued employment.

On February 6, 2014 the Company issued 852,273 stock units to the President and CEO in lieu of cash for the annual bonus.

In May 2014, the Company issued an additional 75,000 restricted stock units to vest according to the Company's standard vesting plan. At June 30, 2014, the Company recognized expense of $1,562 which corresponds to the service period.

During the six months ended June 30, 2014 the Company issued 59,268 stock units to its Board of Directors, and recognized $24,000 of expense related to the stock units.

The Company recognized compensation expense for the three and six months ended June 30, 2014 of $279,000 and $839,250, respectively for the vested portion of the stock units related to employees.

Warrants

On December 7, 2011 the Company entered into a promissory note with Dawson James Securities, Inc. ("DJS") whereby, as compensation for consulting services rendered, the Company agreed to pay DJS a sum of $50,000 at a rate of 8.0% per annum. On January 28, 2013, the Company paid DJS $54,548, which represents the principal and accrued interest due on the note, discharging the note in full. The Company issued 380,973 warrants in connection with the Dawson James notes. The warrants have an exercise price of $0.10 and expire December 6, 2018.

The Company issued 250,000 warrants in connection with the February 2014 Convertible Debentures. The warrants have an exercise price of $0.50 and expire February 13, 2019 (See Note 5).

NOTE 10– SUBSEQUENT EVENTS

Amendment to the January 2013 Line of Credit Convertible Debenture

On July 22, 2014, the Company agreed with Dr. Bassam Damaj ("Dr. Damaj"), the holder of the LOC Convertible Debenture issued in January 2013, to increase the principal amount (the "Principal Amount") that may be borrowed from up to $1,000,000 to up to $1,500,000. The Company will re-pay the LOC Convertible Debenture upon the earliest of (i) the consummation of one or more transactions pursuant to which the Company raises, through the sale of additional equity capital or debt net proceeds, an amount at least equal to $4,000,000; or (ii) July 1, 2016.

Up to $1,000,000 of the Principal Amount plus interest may be converted to common stock of the Company at the discretion of the Company upon either of the two events mentioned above. As of August 13, 2014, the amount outstanding under the LOC Convertible Debenture was approximately $200,000.

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Innovus Pharmaceuticals, Inc., together with its subsidiaries are collectively referred to as “Innovus”, the “Company”, “we”, or “our”. The following information should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this report. For additional context with which to understand our financial condition and results of operations, see the discussion and analysis included in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on March 28, 2014, as amended, as well as the consolidated financial statements and related notes contained therein.

### Forward Looking Statements

Certain statements in this report, including information incorporated by reference, are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995, as amended. Forward-looking statements reflect current views about future events and financial performance based on certain assumptions. They include opinions, forecasts, intentions, plans, goals, projections, guidance, expectations, beliefs or other statements that are not statements of historical fact. Words such as “may,” “should,” “could,” “would,” “expects,” “plans,” “believes,” “anticipates,” “intends,” “estimates,” “approximates,” “predicts,” or “projects,” or the negative or other variation of such words and similar expressions may identify a statement as a forward-looking statement. Any statements that refer to projections of our future financial performance, our anticipated growth and trends in our business, our goals, strategies, focus and plans, and other characterizations of future events or circumstances, including statements expressing general optimism about future operating results and the development of our products, are forward-looking statements.

The forward-looking statements in this report speak only as of the date of this report and caution should be taken not to place undue reliance on any such forward-looking statements. Forward-looking statements are subject to certain events, risks, and uncertainties that may be beyond our control. When considering forward-looking statements, you should carefully review the risks, uncertainties and other cautionary statements in this report as they identify certain important factors that could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. These factors include, among others, the risks described under “Item 1A. Risk Factors” of Part II of this report and elsewhere in this report, as well as in other reports and documents we file with the United States Securities and Exchange Commission, or the SEC. Except as required by applicable law, we do not intend to update any of the forward-looking statement to conform these statements to actual results.

### Overview

We are a San Diego, California based commercial-stage pharmaceutical company engaged in the commercialization, licensing, and development of non-prescription pharmaceutical and consumer care products. We market our products directly or through commercial partners to specialist physicians including urologists, gynecologists and therapists, and directly to consumers through on-line channels, retailers and wholesalers. Our business model leverages our ability to acquire and in-license commercial products that are supported by scientific, and or clinical evidence, place them through our existing supply chain, retail and on-line channels to tap new markets and drive demand for such products and to establish physician relationships.

### Strategy

Our corporate strategy focuses on two primary objectives:

1. Developing a diversified product portfolio of exclusive unique and patented non-prescription pharmaceutical and consumer health products: through (a) the acquisition of marketed non-prescription pharmaceutical and consumer health products; and (b) the introduction of line extensions and reformulations of currently marketed products.

2. Building an innovative, global sales and marketing model through commercial partnerships with established complimentary partners that: (a) generates revenue and (b) requires a lower cost structure compared to traditional pharmaceutical companies.

The execution of our strategy is underway, and we have generated revenue from all of our products most notably from Zestra®, Zestra Glide®, EjectDelay TM, and Sensum+TM (formally called CIRCUMserumTM).

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Sales and Marketing Strategy

Our sales and marketing strategy is based on (a) working with direct commercial channel partners in the US and Canada and also directly marketing the products ourselves to physicians, urologists, gynecologists and therapists and to other healthcare providers and (b) working with exclusive commercial partners outside of the US. We market and distribute our products in the US and Canada through retailers, wholesalers and online channels. We commenced direct promotion of our products directly to physicians, urologists, gynecologists and therapists and to other healthcare providers in August 2014 through the 25 sales force representatives of our partner, Consortia Health. Our strategy outside the US is to partner with companies who can effectively market and sell our products in their countries through their direct marketing and sales teams. The strategy of using our partners to commercialize our products is designed to limit our expenses and fix our cost structure, enabling us to increase our reach while minimizing the incremental spending impact on the Company.

Results of Operations for the Three and Six Months Ended June 30, 2014 Compared with the Three and Six Months Ended June 30, 2013

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| License Fee revenue | $- | $- | $25,000 | $- |
| Product sales revenue | 113,784 | 396 | 254,872 | 396 |
| Total revenue | 113,784 | 396 | 279,872 | 396 |
| Cost of goods sold | 50,546 | 117 | 106,397 | 117 |
| Gross Profit (loss) | 63,238 | 279 | 173,475 | 279 |
| Operating expenses | | | | |
| Research & development | 54,128 | - | 109,695 | - |
| Stock-based compensation | 493,326 | 1,718,857 | 1,211,306 | 1,878,421 |
| General and administrative | 513,056 | 388,118 | 1,080,666 | 560,370 |
| Total operating expenses | 1,060,510 | 2,106,975 | 2,401,667 | 2,438,791 |
| Operating loss | (997,272) | (2,106,696) | (2,228,192) | (2,438,512) |
| Other income (expenses) | | | | |
| Interest expense | (88,343) | (10,525) | (296,837) | (16,058) |
| | | | | |
| Net income (loss) applicable to common shareholders | $(1,085,615) | $(2,117,221) | $(2,525,029) | $(2,454,570) |
| Basic and diluted income (loss) per common share | $(0.05) | $(0.12) | $(0.11) | $(0.15) |
| Weighted average number of common shares outstanding | 23,807,965 | 16,973,163 | 23,191,829 | 16,614,686 |

Revenue: The Company recognized revenues of $113,784 during the three months ended June 30, 2014, compared to $396 for the three months ended June 30, 2013. The increase in revenue of 286% was primarily due to the acquisition of and subsequent launch of our commercial products in the US. Revenues consisted primarily of product sales for Zestra ®, Zestra Glide®, and EjectDelay TM (See Note 7).

The Company recognized revenues of $279,872 during the six months ended June 30, 2014, compared to $396 for the six months ended June 30, 2013. The increase in revenue of 706% was primarily due to the acquisition of and subsequent launch of our commercial products in the US. In addition we recognized $25,000 in upfront fees related to the licensing agreement with Ovation Pharma. Revenues consisted primarily of product sales for Zestra ®, Zestra Glide®, and EjectDelayTM (See Note 7).

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Research & Development: Research and development expenses are mainly related to the development and post marketing studies supporting Zestra®, Zestra Glide®, Sensum+TM and EjectDelayTM.

General and administrative: General and administrative expenses consist primarily of non-cash stock-based compensation expense and consulting expense related to common stock, stock units and stock options granted to consultants, employees and officers of the Company. Additionally, our general and administrative expenses include marketing expenses related to the launch of our products, professional fees, investor relations, insurance premiums, public reporting costs and general corporate expenses.

General and administrative expenses for the three months ended June 30, 2014 was $1,006,382 compared to $2,106,975 for the three months ended June 30, 2013. The decrease of $1,100,593 was primarily related to a decrease in stock-based compensation expense and consulting and professional fees offset by an increase in expenses is related to the acquisition of Semprae Laboratories, Inc. and the Company's launch of its products in the US and other territories. Stock-based compensation expense including consulting expense related to common stock, stock units and stock options granted to consultants for the three months ended June 30, 2014 was $493,326 which represents a decrease of $1,225,531 compared to the three months ended June 30, 2013. The decrease in stock-based compensation expense was primarily related to stock-based compensation awarded to officers of the Company in 2013.

General and administrative expenses for the six months ended June 30, 2014 was $2,291,972 compared to $2,438,791 for the six months ended June 30, 2013. The decrease of $146,819 was primarily related to stock-based compensation expense offset by an increase in expenses related to the acquisition of Semprae Laboratories, Inc. and the Company's launch of its products in the US and other territories. Stock-based compensation expense including consulting expense related to common stock, stock units and stock options granted to consultants, for the six months ended June 30, 2014 was $1,211,306 which represents a decrease of $667,115 compared to the six months ended June 30, 2013. The decrease in stock-based compensation expense was primarily related to stock-based compensation awarded to officers of the Company in 2013.

Interest expense: Interest expense primarily includes interest related to the Company's debt and amortization of debt discount (See Notes 5 and 6).

For the three months ended June 30, 2014, interest expense, which included amortization of debt discount of $70,754, was $88,343 compared to $10,525 for the three months ended June 30, 2013. The increase of $77,818 was primarily due to amortization of debt discount related to the February 2014 Convertible Debenture.

For the six months ended June 30, 2014, interest expense, which included amortization of debt discount of $105,520, was $296,837 compared to $16,058 for the six months ended June 30, 2013. The increase of $280,779 was primarily due to amortization of debt discount related to the February 2014 Convertible Debenture as well as the conversion of the convertible debt which occurred in February 2014 (See Notes 5 and 6).

Liquidity and Capital Resources

The Company's operations have been financed primarily through advances from officers, directors and related parties, and to a lesser extent from outside capital and from revenues generated from the recent launch of our products. These funds have provided us with the resources to operate our business, to sell and support our products, attract and retain key personnel, and add new products to our portfolio. To date, we have experienced net losses and negative cash flows from operations each year since our inception. As of June 30, 2014, we had an accumulated deficit of $8,930,029.

We have raised funds through the issuance of debt and the sale of common stock. For the six months ended June 30, 2014 the Company raised $546,378 in funds which include $300,000 from the issuance of a convertible debenture to an unrelated party in February 2014, $125,000 in proceeds from the issuance of additional non-convertible debt instruments to related parties, as well as $121,378 in proceeds from borrowings under a Convertible Debenture Line of Credit ("LOC Convertible Debenture") that the Company entered into with our President and Chief Executive Officer. The LOC Convertible Debenture provides for a line of credit to us in the amount of up to $1 million through the earlier of our successful completion of a financing of $4 million, or July 2016. Subsequent to the end of the quarter ended June 30, 2014, on July 22, 2014, the parties amended the LOC Convertible Debenture to increase the principal amount that may be borrowed thereunder from up to $1 million to up to $1,500,000 (See Note 10). On February 13, 2014, we entered into a Securities Purchase Agreement with an unrelated third party accredited investor pursuant to which we issued a convertible debenture in the aggregate principal amount of $330,000 (issued at an original issue discount of 10%) which bears interest at the rate of 10% per annum, ("February 2014 Convertible Debenture") and a warrant to purchase 250,000 shares of our common stock (See Note 5). On February 19, 2014, we agreed with the holders of the debentures we previously issued in January 2012 and January 2013 and the holder of the LOC Convertible Debenture, to convert the current principal amount outstanding thereunder, and accrued interest into shares of our common stock. Upon the conversion, the debentures were terminated with the exception of the LOC Convertible Debenture which remains outstanding and under which we may currently borrow up to $1.3 million (See Notes 6 and 10). We have also issued equity instruments where possible to pay for services from vendors and consultants.

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As of June 30, 2014, we had $44,627 in cash and cash equivalents, and $0.9 million that increased to $1.3 million, subsequent to June 30, 2014, in cash available for use under the LOC Convertible Debenture. The Company expects that its existing capital resources, revenues from sales of our products, along with the $1.3 million in funds currently available for use under the LOC Convertible Debenture will be sufficient to allow the Company to continue its operations, commence the product development process, and launch selected products through July 1, 2015. However, the Company's actual needs will depend on numerous factors, including timing of introducing its products to the marketplace, its ability to attract ex-US distributors for its products, its ability to in-license or develop new product candidates and its ability to finalize merger and acquisition activities.

For the six months ended June 30, 2014, cash used in operating activities was $535,125, consisting primarily of the net loss for the period of $2,525,029, offset by non-cash stock-based compensation expense of $926,164, and common stock, stock units and stock options issued for services of $285,124. Additionally, working capital changes consisted of cash increases of $63,507 related to an increase in accounts receivable from customers, increase of $104,670 related to accounts payable and accrued expenses, and an increase of $269,666 related to accrued compensation.

For the six months ended June 30, 2014, cash provided by financing activities was $ 546,378 and included $300,000 in proceeds from the issuance of the February 2014 Convertible Debenture, $125,000 in proceeds from the issuance of additional non-convertible debt instruments to related parties, as well as $121,378 in proceeds from borrowings under the LOC Convertible Debenture.

Critical Accounting Policies and Estimates

For a discussion of our critical accounting policies, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2013.

New Accounting Standards

Refer to Note 3, in "Notes to Unaudited Condensed Consolidated Financial Statements" for a discussion of new accounting standards.

Off- Balance Sheet Arrangements

None.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

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## ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Evaluation of disclosure controls and procedures. The Company carried out an evaluation, under the supervision and with the participation of management, including its President and Chief Executive Officer, and Executive Vice President, Chief Financial Officer, of the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2014. Based on the foregoing, the President and Chief Executive Officer, and Executive Vice President, Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective as of June 30, 2014 as a result of the material weakness in internal controls over financial reporting due to the fact that during a significant portion of 2013, the Company had only one employee who was responsible for all matters surrounding accounting and business transactions and the Company lacked a segregation of duties in its accounting function. A material weakness is a deficiency, or combination of deficiencies, in internal controls over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. Although the Company has taken several steps to help remediate the material weakness, including the hiring of additional accounting and finance personnel, the establishment of segregation of duties and the implementation of purchasing and approval controls, this material weakness was ongoing at June 30, 2014.

Notwithstanding this material weakness, management concluded that the financial statements included in this quarterly report fairly present, in all material respects, the financial position, results of operations and cash flows for the periods presented in conformity with generally accepted accounting principles.

Change in Internal Control over Financial Reporting. Except for the remedial measures to correct the material weakness discussed above, no change in the internal controls over financial reporting occurred during the three months ended June 30, 2014, that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

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## PART II—OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

In the normal course of business, the Company may be a party to legal proceedings. The Company is not currently a party to any material legal proceedings.

### ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors described in the Company's Annual Report on Form 10-K, as filed with the SEC on March 28, 2014.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In April 2014, the Company extended its investor relations agreement with a third party and agreed to issue an additional 300,000 shares of its common stock in exchange for investor relations' services.

The securities described above were offered and sold in reliance on Section 4(a)(2) of the Securities Act of 1933 or Rule 506 of Regulation D promulgated thereunder. The Company relied on the investor's written representations, including a representation that such investor is an "accredited investor" as that term is defined in Rule 501(a) under the Securities Act. The investor also represented that it was acquiring the securities for investment only and not with a view toward resale or distribution. The Company will request our stock transfer agent to affix appropriate restrictive legends to the stock certificates when issued. Neither the Company nor anyone acting on the Company's behalf offered or sold the securities by any form of general solicitation or general advertising.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

### ITEM 5. OTHER INFORMATION

None.

### ITEM 6. EXHIBITS

See the Exhibit Index immediately following the signature page of this report.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Innovus Pharmaceuticals, Inc.
(Registrant)

Dated: August 14, 2014

/s/ Bassam Damaj
Bassam Damaj, President and Chief Executive Officer

Dated: August 14, 2014

/s/ Lynnette Dillen
Lynnette Dillen, Executive Vice President and Chief Financial Officer

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INDEX TO EXHIBITS

| Exhibit No. | Description |
|---|---|
| 10.1 | Third Amended and Restated 8% Convertible Debenture by and between the Company and Dr. Bassam Damaj, dated July 22, 2014 (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K, filed on July 23, 2014 (SEC File No. 000-52991-14725951)). |
| 10.2 | 8% Debenture between the Company and Dr. Henry Esber, Ph.D., dated May 30, 2014. |
| 10.3 | 8% Debenture between the Company and Lynnette Dillen, dated June 17, 2014. |
| 31.1 | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1* | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350,as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2* | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350,as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

* This certification is being furnished solely to accompany this report pursuant to 18 U.S.C. 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934 and is not to be incorporated by reference into any filing of the Registrant, whether made before or after the date hereof, regardless of any general incorporation by reference language of such filing.