CorMedix Inc.
Form 10-Q/A
March 04, 2014

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

FORM 10-Q/A
Amendment 1

(Mark One)

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

For the quarterly period ended September 30, 2013

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

For the transition period from ________ to ________

Commission file number 001-34673

CORMEDIX INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	20-5894890 (I.R.S. Employer Identification No.)
745 Rt. 202-206, Suite 303, Bridgewater, NJ (Address of Principal Executive Offices)	08807 (Zip Code)

(908) 517-9500
(Registrant’s Telephone Number, Including Area Code)

____

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company þ

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

The number of shares outstanding of the issuer's common stock, as of November 18, 2013 was 16,164,516.

EXPLANATORY NOTE

CorMedix Inc. (the "Company") is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013, filed with the Securities and Exchange Commission (the "Commission") on November 19, 2013, (the "Original Filing"), to correct its unaudited condensed consolidated financial statements included in the Original Filing. The error was due to an inadvertent over-accrual of a royalty under a license agreement. We also have amended "Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" to reflect these increased and decreased amounts.

We have amended "Part I Item 4. Controls and Procedures and Evaluation of Disclosure Controls and Procedures" and "Part II Item 1A. Risk Factors" to reflect a material weakness in our internal control over financial reporting which resulted in the restatement of our financial statements on Form 10-Q for the quarter ended September 30, 2013.

In addition to the corrections above, this Amendment also restates "Part II. Item 6. Exhibits" to include currently dated certifications pursuant to Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002, which are attached as Exhibits 31.1, 31.2, 32.1 and 32.2 to this Amendment No. 1.

Except as set forth above, the Original Filing has not been amended, updated or otherwise modified, and does not reflect events occurring after November 19, 2013, the date of the Original Filing, or modify or update those disclosures that may have been affected by subsequent events.

CORMEDIX INC.
(A Development Stage Company)

INDEX

PART I FINANCIAL INFORMATION

PART II OTHER INFORMATION

PART I

FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements.

CORMEDIX INC.

(A Development Stage Company)

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2013 (Unaudited) (Restated)	December 31, 2012 (Note 1) (Restated)
ASSETS		
Current assets		
Cash	$483,052	$835,471
Restricted cash	220,500	-
Prepaid research and development expenses	2,800	11,221
Inventories	270,506	-
Deferred financing costs	13,729	257,886
Other prepaid expenses and current assets	29,788	30,677
Total current assets	1,020,375	1,135,255
Property and equipment, net	3,039	4,668
Security deposit	13,342	13,342
TOTAL ASSETS	$1,036,756	$1,153,265
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	$874,840	$928,553
Accrued expenses	755,083	261,983
Accrued interest, related parties	19,262	16,175
Senior convertible notes, net of debt discount of $647,939 at December 31, 2012	-	16,061
Senior convertible notes - related parties, net of debt discount of $4,015 at September 30, 2013 and $406,316 at December 31, 2012	420,985	253,684
8% senior convertible notes at fair value	311,900	-
8% senior convertible notes at fair value, related party	802,000	-
Warrant liability	582,800	-
Total current liabilities	3,766,870	1,476,456
Deferred rent	8,490	12,185
TOTAL LIABILITIES	3,775,360	1,488,641
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIT		
Preferred stock - $0.001 par value: 2,000,000 shares authorized, 454,546 and 0 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively	455	-

Common stock - $0.001 par value: 80,000,000 shares authorized, 15,959,088 and 11,408,274 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively	15,959	11,408
Deferred stock issuances	(146)	(146)
Additional paid-in capital	49,539,373	45,886,596
Deficit accumulated during the development stage	(52,294,245)	(46,233,234)
TOTAL STOCKHOLDERS' DEFICIT	(2,738,604)	(335,376)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$1,036,756	$1,153,265

See Notes to Unaudited Condensed Consolidated Financial Statements.

CORMEDIX INC.
(A Development Stage Company)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months Ended September 30, 2013 (Restated)	For the Three Months Ended September 30, 2012 (Restated)	For the Nine Months Ended September 30, 2013 (Restated)	For the Nine Months Ended September 30, 2012 (Restated)	Cumulative Period from July 28, 2006 (inception) Through September 30, 2013 (Restated)
OPERATING EXPENSES					
Research and development	$750,774	$244,488	$ 1,385,983	$ 845,035	$ 24,589,288
General and administrative	504,528	746,653	1,965,006	1,659,522	14,741,040
Total Operating Expenses	1,255,302	991,141	3,350,989	2,504,557	39,330,328
LOSS FROM OPERATIONS	(1,255,302)	(991,141)	(3,350,989)	(2,504,557)	(39,330,328)
OTHER INCOME (EXPENSE)					
Other income, net	-	-	-	-	420,987
Interest income	61	274	295	1,814	126,602
Foreign currency gain (loss)	1,294	-	390	-	390
Loss on issuance of convertible notes and warrants	(945,892)	-	(945,892)	-	(945,892)
Change in fair value of convertible notes and warrants	45,934	-	45,934	-	45,934
Loss on extinguishment of convertible notes	(33,626)	-	(33,626)	-	(33,626)
Interest expense, including amortization and write-off of deferred financing costs and debt discounts	(312,368)	(26,055)	(1,413,933)	(26,055)	(12,989,897)
LOSS BEFORE INCOME TAXES	(2,499,899)	(1,016,922)	(5,697,821)	(2,528,798)	(52,705,830)
State income tax benefit	-	-	-	-	774,775
NET LOSS	(2,499,899)	(1,016,922)	(5,697,821)	(2,528,798)	(51,931,055)
Deemed dividend – beneficial conversion feature	(53,246)	-	(363,190)	-	(363,190)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	$(2,553,145)	$(1,016,922)	$ (6,061,011)	$ (2,528,798)	$ (52,294,245)
NET LOSS PER SHARE – BASIC AND DILUTED	$(0.18)	$(0.09)	$ (0.46)	$ (0.22)	
	14,430,374	11,408,274	13,037,814	11,408,274	

WEIGHTED AVERAGE SHARES OUTSTANDING – BASIC AND DILUTED

See Notes to Unaudited Condensed Consolidated Financial Statements.

CORMEDIX INC.
(A Development Stage Company)
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT
(Unaudited)

For the Nine Months Ended September 30, 2013

	Common Stock		Non-Voting Preferred Stock – Series A		Non-Voting Preferred Stock – Series B		Deferred Stock Issuances	Additional Paid-in Capital	Deficit Accumulated During the Development Stage (Restated)	Sto (R
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at January 1, 2013	11,408,274	$11,408	-	$-	-	$-	$(146)	$45,886,596	$(46,233,234)	$(3
Non-voting preferred stock issued in February 2013 private placement at $0.70 per share, net			761,429	761				506,372		50
Conversion of Series A non-voting preferred stock to common stock	761,429	761	(761,429)	(761)						-
Deemed dividend related to beneficial conversion feature of Series A non- voting preferred stock								309,944	(309,944)	-
Non-voting preferred stock issued in July 2013 private placement at $1.10 per share, net					454,546	455		480,008		48

Deemed dividend related to beneficial conversion feature of Series B non- voting preferred stock								53,246	(53,246)	-
Repurchase of outstanding warrants								(33,000)		(3
Stock-based compensation								753,476		75
Warrants issued in connection with license agreement								76,574		76
Stock issued in connection with senior convertible note conversion at $0.35 per share	2,568,572	2,569						896,431		89
Stock issued in connection with 8% senior convertible note and interest conversion	576,005	576						550,371		55
Stock issued in connection with warrants exercised	644,808	645						59,355		60
Net loss									(5,697,821)	(5
Balance at September 30, 2013	15,959,088	$15,959	-	$-	454,546	$455	$(146)	$49,539,373	$(52,294,245)	$(2

See Notes to Unaudited Condensed Consolidated Financial Statements.

3

CORMEDIX INC.
(A Development Stage Company)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Nine Months Ended September 30, 2013 (Restated)	For the Nine Months Ended September 30, 2012 (Restated)	Cumulative Period from July 28, 2006 (Inception) Through September 30, 2013 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(5,697,821)	$(2,528,798)	$(51,931,055)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock-based compensation	753,476	183,177	3,352,714
Stock issued in connection with license agreements	-	-	6,613,718
Stock issued in connection with consulting agreement	-	-	158,262
Amortization of deferred financing costs	269,156	4,410	2,393,669
Amortization of debt discount	1,050,240	19,206	6,308,753
Warrants issued in connection with license agreement	76,574	-	76,574
Loss on issuance of convertible notes and warrants	945,892	-	945,892
Non-cash loss on extinguishment of convertible notes	33,626	-	33,626
Change in fair value of convertible notes and warrants	(45,934)	-	(45,934)
Non-cash charge for beneficial conversion feature	-	-	1,137,762
Non-cash interest expense	28,855	-	3,035,873
Expenses paid on behalf of the Company satisfied through the issuance of notes	-	-	51,253
Depreciation	1,628	5,266	58,670
Changes in operating assets and liabilities:			
Restricted cash	(220,500)	-	(220,500)
Prepaid expenses and other current assets	9,310	456,871	(32,588)
Inventories	(270,506)	-	(270,506)
Security deposit	-	-	(13,342)
Accounts payable	(121,785)	(146,079)	775,965
Accrued expenses and accrued interest	493,102	258,083	771,260
Accrued interest, related parties	3,087	1,587	3,087
Deferred rent	(3,695)	(1,716)	8,490
Net cash used in operating activities	(2,695,295)	(1,747,993)	(26,788,357)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of equipment	-	-	(61,709)
Net cash used in investing activities	-	-	(61,709)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from notes payable to related parties	-	635,000	3,063,484
Proceeds from senior convertible notes, net	686,250	215,000	14,650,088
Proceeds from senior convertible notes, related party, net	686,250	-	686,250
Proceeds from Galenica, Ltd. promissory note	-	-	1,000,000

Proceeds from exercise of warrants	60,000	-	60,000
Payments for deferred financing costs and private placement expenses	(89,624)	(95,000)	(1,607,227)
Repayment of amounts loaned under related party notes	-	-	(1,981,574)
Proceeds from sale of equity securities	1,033,000	-	11,490,270
Repurchase of outstanding warrants	(33,000)	-	(33,000)
Proceeds from receipt of stock subscriptions and issuances of common stock	-	-	4,827
Net cash provided by financing activities	2,342,876	755,000	27,333,118
NET INCREASE (DECREASE) IN CASH	(352,419)	(992,993)	483,052
CASH – BEGINNING OF PERIOD	835,471	1,985,334	-
CASH – END OF PERIOD	$483,052	$992,341	$483,052
Cash paid for interest	$93,451	$-	$111,876
Supplemental Disclosure of Non-Cash Financing Activities:			
Conversion of notes payable and accrued interest to common stock	$1,416,321	$-	$20,313,488
Conversion of preferred stock to common stock	$533,000		$533,000
Reclassification of deferred financing fees to additional paid-in capital	$-	$-	$148,014
Stock issued to technology finders and licensors	$-	$-	$155
Warrants issued to placement agent	$-	$-	$854,608
Debt discount on senior convertible notes	$-	$701,021	$6,312,768
Deemed dividend – beneficial conversion feature	$363,190	$-	$363,190
Accrued and unpaid deferred financing costs	$48,534	$65,976	$83,095
Accrued and unpaid private placement expenses	$19,538	$-	$45,405

See Notes to Unaudited Condensed Consolidated Financial Statements.

CORMEDIX INC.
(A Development Stage Company)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Organization, Business and Basis of Presentation:

Organization and Business:

CorMedix Inc., incorporated in July 2006 under the laws of the State of Delaware (the "Company"), is a development stage pharmaceutical and medical device company that seeks to in-license, develop and commercialize therapeutic products for the treatment of cardio- renal and infectious disease, specifically in the dialysis and non-dialysis areas.

Basis of Presentation:

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, the unaudited condensed consolidated financial statements do not include all information and footnotes required by GAAP for complete annual financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of such interim results. Interim operating results are not necessarily indicative of results that may be expected for the full year ending December 31, 2013 or for any subsequent period. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto of the Company which are included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 27, 2013. The accompanying condensed balance sheet as of December 31, 2012 has been derived from the audited financial statements included in such Form 10-K.

The Company's primary activities since incorporation have been organizational activities, including recruiting personnel, acquiring licenses for its pharmaceutical compound pipeline, performing business and financial planning, performing research and development, establishing office facilities, and raising funds through the issuance of debt and common stock. The Company has not generated any revenues from its product candidates and, accordingly, the Company is considered to be in the development stage.

The Company's unaudited condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments through the normal course of business. The unaudited condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities. The Company has sustained losses since its inception and expects that such losses will continue at least through 2014 depending on revenue levels and potential strategic partnerships. As of September 30, 2013, management believes that the majority of the Company's resources, including the Company's research and development efforts, and commercialization of Neutrolin® (CRMD003) in Europe, combined with the Company's receipt of convertible preferred equity financing funds in October 2013 (see Note 7), will result in the currently available capital resources of the Company being sufficient to meet the Company's operating needs through the second quarter of 2014, assuming no sales and/or strategic partnerships occur. The Company intends to raise additional funds through various potential sources, such as equity and/or debt financings, strategic relationships, or out-licensing of its products, however, the Company can provide no assurances that such financing will be available on acceptable terms, or at all. If adequate financing is not available, the Company may be required to terminate or significantly curtail or cease its operations, or enter into arrangements with collaborative partners or others that may require the Company to relinquish rights to certain of its technologies, or potential markets that the Company would not otherwise relinquish.

CORMEDIX INC.
(A Development Stage Company)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These matters, among others, raise substantial doubt about the Company's ability to continue as a going concern. The accompanying condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

For the nine months ended September 30, 2013 and the period from July 28, 2006 (inception) to September 30, 2013, the Company incurred net losses of $5,697,821 and $51,931,055, respectively.

Note 2 — Summary of Significant Accounting Policies:

Use of Estimates:

The preparation of financial statements in conformity with 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 date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Consolidation:

The consolidated financial statements include the accounts of CorMedix Europe GmbH, a wholly owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

Foreign Currency:

The consolidated financial statements are presented in U.S. Dollars (USD), the reporting currency of the Company. For the financial statements of the Company's foreign subsidiary, whose functional currency is the USD, foreign currency asset and liability amounts, if any, are remeasured into USD at end-of-period exchange rates, except for inventories, prepaid expenses, property, plant and equipment, goodwill and other intangible assets, which are remeasured at historical rates. Foreign currency income and expenses are remeasured at average exchange rates in effect during the year, except for expenses related to balance sheet amounts remeasured at historical exchange rates. Exchange gains and losses arising from remeasurement of foreign currency-denominated monetary assets and liabilities are included in income in the period in which they occur.

Restricted Cash:

As of September 30, 2013, the Company invested in a twelve-month 0.14% certificate of deposit held by the bank as collateral for a letter of credit in connection with the Company's purchase of raw materials due to be delivered in the next twelve months. The certificate of deposit will terminate without penalties once the transaction covered by the letter of credit is completed. The certificate of deposit is recorded on the balance sheet as restricted cash. The restricted cash account is classified as current if at the end of the reporting period, the restriction is expected to be lifted in the next twelve months or the contractual maturity date of the certificate of deposit is in the next twelve months.

CORMEDIX INC.
(A Development Stage Company)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Loss per common share:

Basic earnings (loss) per common share excludes any potential dilution and is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings per common share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. However, since their effect is anti-dilutive, the Company has excluded potentially dilutive shares. The following potentially dilutive shares have been excluded from the calculation of diluted net loss per share as their effect would be anti-dilutive.

	September 30, 2013	September 30, 2012
Convertible notes	2,035,628	2,428,571
Series B non-voting preferred stock	454,546	-
Shares underlying outstanding warrants	8,985,025	6,932,534
Shares underlying outstanding stock options	3,179,630	1,135,630
Total	14,654,829	10,496,735

Inventories:

Inventories are valued at the lower cost or market on a first in, first out basis. Inventories consist of raw materials (including labeling and packaging), work-in-process, and finished goods, if any, for the Neutrolin product. Inventories consist of the following at September 30, 2013:

Raw materials	$216,916
Work-in-process	53,590
Total	$270,506

Accrued Expenses:

Accrued expenses consist of the following:

	September 30, 2013	December 31, 2012
Licensing fee	$500,000	$-
Royalty fee	78,750	45,000
Accrued payroll and payroll taxes	134,562	-
Professional fees	12,000	108,532
Accrued interest	4,455	10,763
Other	25,316	97,688
Total	$755,083	$261,983

Stock-Based Compensation:

Awards granted to employees, officers and directors are measured at the grant date, based on the estimated fair value of the award, and stock-based compensation cost, net of expected forfeitures, is recognized as expense over the requisite service period on a straight-line basis.

The Company accounts for stock options granted to non-employees on a fair value basis using the Black-Scholes option pricing method. The non-cash charge to operations for non-employee options with service vesting is revalued at the end of each reporting period based upon the change in the fair value of the options and amortized to consulting expense over the related vesting period. For stock options granted to non-employees with vesting contingent upon various performance metrics, the Company used the guidelines in accordance with FASB ASC No. 505-50, “Equity-Based Payments to Non-Employees.” For options having performance conditions that are outside of the control of the non-employee, the cost to be recognized is the lowest aggregate fair value prior to the achievement of the performance condition, even if the Company believes it is probable that the performance condition will be achieved.

During the nine months ended September 30, 2013 and 2012, options to purchase an aggregate of 1,400,000 and 380,000 shares of common stock, respectively, were granted to the Company’s employees, officers, directors and consultants.

CORMEDIX INC.
(A Development Stage Company)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Fair Value Option:

As permitted under FASB ASC 825, Financial Instruments ("ASC 825"), the Company has elected the fair value option to account for its convertible notes that were issued during the quarter ended September 30, 2013. ASC 825 requires that the entity record the financial asset or financial liability at fair value rather than at historical cost with changes in fair value recorded in the statement of operations. In addition, it requires that upfront costs and fees related to items for which the fair value option is elected be recognized in earnings as incurred and not deferred.

Note 3 — Convertible Notes:

On July 5, 2013, the Company received net proceeds of $1,372,500 upon approval of a CE Mark certification. The Company had entered into an agreement with existing stockholders in May 2013 for an aggregate principal amount of $1,500,000 of senior secured convertible notes and warrants to purchase up to an aggregate of 1,000,000 shares of its common stock. The receipt of net proceeds of $1,372,500 was dependent upon receipt of a CE Mark certification, which occurred on July 5, 2013. The notes bear interest at the rate of 8.0% per annum and will be subject to a "make-whole" upon any conversion of the notes into common stock, as if the notes being converted were outstanding to April 1, 2014. Interest was first payable on September 3, 2013 and is payable on the first trading day of each month thereafter. The notes mature on April 1, 2016 unless redeemed prior to that date, subject to amortization, discussed below. A noteholder may elect to have any interest due prior to April 1, 2014 added to the principal amount of a note; thereafter, interest will be paid in cash only. The warrants are exercisable one year after issuance, have an exercise price of $1.10 per share, subject to anti-dilution adjustment, and a term of five years from the date they are first exercisable. The holders of the notes and warrants will be prohibited from converting the notes into or exercising the warrants for shares of common stock if, as a result of such conversion or exercise, the holder, together with its affiliates, would own more than 4.99% or 9.99%, at the initial holder's election, of the total number of shares of the Company's common stock then issued and outstanding.

The Company will redeem the notes in cash at par value or in shares of stock which are priced in accordance with a pricing formula set forth in the notes, in eight equal monthly installment payments beginning on September 1, 2013, and continuing thereafter on the first business day of each month, ending on April 1, 2014. At the Company's option, and if certain equity conditions are waived or satisfied, the Company may elect to pay these installment payments in shares of common stock, in cash, or in any combination of shares and cash. To the extent the Company pays all or any portion of an installment payment in common stock, the Company will deliver to each noteholder the amount of shares equal to the applicable installment payment being paid in shares of common stock, divided by the lower of (i) the conversion price then in effect, and (ii) 90% of the average of the 10 lowest-volume weighted-average prices of our common stock during the 20 trading day period ending two trading days prior to the applicable payment date(the "Company Conversion Price").

All installment payments are subject to the right of each noteholder to defer payment of some or all of any installment payment to a subsequent installment date or the maturity date, and, with respect to any installment date, convert, at the then-prevailing Company Conversion Price, any amount of principal and capitalized interest up to an amount equal to four installment payments. Each noteholder may also convert, at any time, all or a portion of any deferred installment payment. The Company Conversion Price for any such deferred installment payment shall be the lower of the Company Conversion Price in effect on the date of the original installment date and the Company Conversion Price then in effect.

CORMEDIX INC.
(A Development Stage Company)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Due to the complexity and number of embedded features within the convertible note and as permitted under under ASC 825, the Company elected to account for the convertible notes and all the embedded features (collectively, the “hybrid instrument”) under the fair value option. ASC 825 requires the entity to record the financial asset or financial liability at fair value rather than at historical cost with changes in fair value recorded in the statement of operations. In addition, it requires that upfront costs and fees related to items for which the fair value option is elected be recognized in earnings as incurred and not deferred. On the initial measurement date of July 5, 2013, the fair value of the hybrid instrument was estimated at $1,643,500, which was $143,500 higher than the principal amount of $1,500,000. During the quarter ended September 30, 2013, there were redemptions and voluntary conversions of the convertible note, resulting in a $451,250 reduction in the outstanding principal balance to $1,048,750 at September 30, 2013. The corresponding fair value of the outstanding balance of the hybrid instrument at September 30, 2013 was $1,113,900. During the quarter ended September 30, 2013, the Company recorded a gain of $41,134 related to changes in the fair value of the hybrid instrument, of which $35,180 was unrealized and $5,954 was realized in connection with the redemptions and voluntary conversions that occurred during the quarter. The Company also recorded a $33,626 loss on extinguishment of convertible notes related to the conversions and redemptions during the quarter ended September 30, 2013.

The Company used a Monte Carlo model to separately value the warrants issued in connection with the convertible notes in order to take into account the possibility of an adjustment to the exercise price associated with new rounds of financing in the future. The most likely exercise price of the warrants was estimated under various stock price scenarios and the noteholders’ payoffs were computed under each scenario. The present value of the mean of such payoffs represents the value of the warrant on any given valuation date. When the stock price was simulated in the model, the possible scenarios were always between the valuation date stock price and the initial exercise price of $1.10. As a result, the Company estimated the fair value of the warrant liability on the issuance date to be $587,600.

A summary of the key assumptions used by the Company in the Monte Carlo simulation model to value the hybrid instrument at each of the relevant measurement dates during the quarter is as follows:

Stock price – Due to the historical volatility of the stock price, a 30 day volume weighted average stock price was used as of each valuation date.

Conversion/redemption strike price – These assumptions incorporate both the initial contractual conversion price as well as subsequent downward adjus