

RenovaCare, Inc.
Form 10-Q
November 14, 2017

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 the quarterly period ended **September 30, 2017**

“ 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 **000-30156**

RENOVACARE, INC.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation)

98-0384030
(I.R.S. Employer Identification No.)

430 Park Avenue

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Suite 702

New York, NY 10022

(Address of principal executive offices)

888-398-0202

(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 for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No "

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 x No "

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

Large accelerated filer	..	Accelerated filer	..
Non-accelerated filer	..	(Do not check if a smaller reporting company)	
Smaller reporting company	x	Emerging Growth Company	..

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

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

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As of November 1, 2017, the registrant had 76,145,418 shares of its common stock, par value \$0.00001 per share, issued and outstanding.

RENOVACARE, INC.

FORM 10-Q

For The Quarter Ended September 30, 2017

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PART I

Item 1. Financial Statements

RENOVACARE, INC
CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2017 AND DECEMBER 31, 2016

	September 30, 2017	December 31, 2016
	(Unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,149,604	\$ 418,031
Prepaid expenses	11,800	31,535
Total current assets	1,161,404	449,566
Equipment, net of accumulated depreciation of \$291 and \$53, respectively	661	898
Intangible assets	152,854	152,854
Total assets	\$ 1,314,919	\$ 603,318

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Current liabilities		
Accounts payable	\$ 101,911	\$ -
Accounts payable - related parties	20,000	33,290
Contract payable	100,000	150,000
Interest payable to related parties	71,185	15,220
Convertible promissory notes payable to related parties, net of discount of \$302,728 and \$534,519, respectively	817,272	165,481
Total current liabilities	1,110,368	363,991
Total liabilities	1,110,368	363,991

Commitments and contingencies

Stockholders' equity

Preferred stock: \$0.0001 par value; 10,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock: \$0.00001 par value; 500,000,000 shares authorized, 75,225,418 and 70,069,693 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	753	702
Additional paid-in capital	13,949,028	11,290,209
Retained deficit	(13,745,230)	(11,051,584)

Total stockholders' equity		204,551		239,327
Total liabilities and stockholders' equity	\$	1,314,919	\$	603,318

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

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RENOVACARE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue	\$ -	\$ -	\$ -	\$ -
Operating expense				
Research and development	139,819	45,381	363,785	231,013
General and administrative	434,923	223,832	1,599,338	1,347,063
Total operating expense	574,742	269,213	1,963,123	1,578,076
Loss from operations	(574,742)	(269,213)	(1,963,123)	(1,578,076)
Other income (expense)				
Interest income	738	149	1,195	768
Interest expense	(20,775)	(2,819)	(56,641)	(2,819)
Accretion of debt discount	(256,667)	(30,753)	(675,077)	(30,753)
Total other income (expense)	(276,704)	(33,423)	(730,523)	(32,804)
Net loss	\$ (851,446)	\$ (302,636)	\$ (2,693,646)	\$ (1,610,880)
Basic and Diluted Loss per Common Share	\$ (0.01)	\$ (0.00)	\$ (0.04)	\$ (0.02)
Weighted average number of common shares outstanding - basic and diluted	75,123,280	69,955,847	73,837,107	69,695,772

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

Table of Contents**RENOVACARE, INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 (UNAUDITED) AND YEAR ENDED DECEMBER 31, 2016**

	Common Stock Shares	Amount	Additional Paid-in Capital	Retained Deficit	Total Stockholders' Equity
Balance, December 31, 2015	67,781,934	\$ 678	\$ 9,197,970	\$ (8,973,695)	\$ 224,953
Issuance of common stock from the exercise of warrants	2,273,913	24	1,109,977	-	1,110,001
Issuance of common stock from the exercise of stock options	13,846	-	-	-	-
Stock based compensation due to common stock purchase options	-	-	296,123	-	296,123
Reversal of stock based compensation due to forfeiture of stock options	-	-	(13,861)	-	(13,861)
Discount on convertible promissory note due to detachable warrants	-	-	340,735	-	340,735
Discount on convertible promissory note due to beneficial conversion feature	-	-	359,265	-	359,265
Net loss for the year ended December 31, 2016	-	-	-	(2,077,889)	(2,077,889)
Balance, December 31, 2016	70,069,693	702	11,290,209	(11,051,584)	239,327
Issuance of common stock from the exercise of warrants	4,592,895	46	344,578	-	344,624
	102,580	1	(1)	-	-

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Issuance of common stock from the exercise of stock options					
July 2017 Private Placement units issued	460,250	4	1,122,606	-	1,122,610
Stock based compensation due to common stock purchase options	-	-	748,350	-	748,350
Discount on convertible promissory note due to detachable warrants and beneficial conversion feature	-	-	443,286	-	443,286
Net loss for the nine months ended September 30, 2017	-	-	-	(2,693,646)	(2,693,646)
Balance, September 30, 2017 (Unaudited)	75,225,418	\$ 753	\$ 13,949,028	\$ (13,745,230)	\$ 204,551

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

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RENOVACARE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

	Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities		
Net loss	\$ (2,693,646)	\$ (1,610,880)
Adjustments to reconcile net loss to net cash flows from operating activities		
Depreciation	237	-
Stock based compensation expense	748,350	287,238
Accretion of debt discount	675,077	30,753
Changes in operating assets and liabilities:		
Decrease (increase) in prepaid expenses	19,735	(1,737)
Increase (decrease) in accounts payable	101,911	(43,407)
Increase (decrease) in accounts payable - related parties	(13,290)	9,497
Increase (decrease) in interest payable - related parties	55,965	2,819
Increase (decrease) in contract payable	(50,000)	(84,125)
Net cash flows from operating activities	(1,155,661)	(1,409,842)
Cash flows from financing activities		
Proceeds from exercise of warrants and issuance of common stock	1,467,234	1,000,000
Proceeds from the issuance of convertible promissory notes	445,000	700,000
Payments of convertible promissory notes	(25,000)	-
Net cash flows from financing activities	1,887,234	1,700,000
Increase in cash and cash equivalents	731,573	290,158
Cash and cash equivalents at beginning of period	418,031	397,589
Cash and cash equivalents at end of period	\$ 1,149,604	\$ 687,747
Supplemental disclosure of cash flow information:		
Interest paid in cash	\$ 676	\$ -
Income taxes paid in cash	\$ -	\$ -
Supplemental disclosure of non-cash transactions:		
Discount on convertible promissory note due to detachable warrants and beneficial conversion feature	\$ 443,286	\$ 700,000

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

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RENOVACARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation, Organization, Going Concern, Recent Accounting Pronouncements and Earnings (Loss) Per Share

Basis of Presentation

The unaudited financial statements of RenovaCare, Inc. (the “Company”) as of September 30, 2017, and for the three and nine months ended September 30, 2017 and 2016, have been prepared in accordance with generally accepted accounting principles (“GAAP”) in the United States for interim financial reporting and include the Company’s wholly-owned subsidiary, RenovaCare Sciences. Accordingly, they do not include all of the disclosures required by accounting principles generally accepted in the United States for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2016, as filed with the Securities and Exchange Commission as part of the Company’s Form 10-K. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of the interim financial information have been included. The Company did not record an income tax provision during the periods presented due to net taxable losses. The results of operations for any interim period are not necessarily indicative of the results of operations for the entire year.

Organization

RenovaCare, Inc., together with its wholly owned subsidiary, focuses on the acquisition, research, development and, if warranted, commercialization of autologous (using a patient’s own cells) cellular therapies that can be used for medical and aesthetic applications.

On July 12, 2013, the Company, through its wholly owned subsidiary, RenovaCare Sciences Corp., completed the acquisition of its flagship technologies (collectively, the “**CellMistTM System**”) along with associated United States patent applications and two foreign patent applications, the first of which was filed on August 23, 2007 (DE 10 2007 040 252.1) and the second of which was filed on April 27, 2011 (DE 10 2011 100 450.9), both of which have been granted. One of the US patent applications was granted on November 29, 2016 (Patent No. US 9,505,000) and the other patent application was granted on April 4, 2017 (Patent No. US 9,610,430).

The CellMist™ System is comprised of (a) a treatment methodology for cell isolation for the regeneration of human skin cells (the “CellMist™ Solution”) and (b) a solution sprayer device (the “SkinGun™”) for delivering the cells to the treatment area. The Company has filed additional patent applications related to the CellMist™ Solution and SkinGun™ technologies.

Going Concern

The Company's activities have consisted principally of performing research and development activities and raising capital. These activities are subject to significant risks and uncertainties, including possible failure of preclinical testing and failing to secure additional funding before achieving sustainable revenue and profit from operations. The Company's ability to fund the development of its cellular therapies will depend on the amount and timing of cash receipts from future financing activities. The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America, which contemplates continuation of the Company as a going concern, which is dependent upon the Company's ability to establish itself as a profitable business.

The Company does not have any commercialized products, has not generated any revenue since inception and has sustained recurring losses and negative cash flows from operations since inception. The Company expects to incur losses as it continues development of its products and technologies. Over the past year, the Company has been funded through the sale of equity securities and proceeds from convertible promissory notes. As of September 30, 2017, the Company had approximately \$1,149,604 of cash. On October 16, 2017, the Company completed a private placement with a group of private investors, whereby the Company received \$2,300,000 from the sale of common stock and warrants. The Company believes that, as a result, it currently has sufficient cash to meet its funding requirements over the next year. However, the Company has experienced and continues to experience negative cash flows from operations, as well as an ongoing requirement for substantial additional capital investment. The Company expects that it will need to raise additional capital to accomplish its business plan. The Company expects to seek to obtain additional funding through the sale of its securities. There can be no assurance as to the availability or terms upon which such financing and capital might be available.

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Recent Accounting Pronouncements

Any reference in these notes to applicable accounting guidance is meant to refer to the authoritative non-governmental US GAAP as found in the Financial Accounting Standards Board's Accounting Standards Codification.

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-09, “Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting (Topic 718)”, which is intended to simplify several aspects of the accounting for share-based payment award transactions. The guidance was effective for annual periods beginning after December 31, 2016, with early adoption permitted. The Company adopted the guidance with no material impact on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)”, which supersedes ASC Topic 840, Leases, and creates a new topic, ASC Topic 842, Leases. ASU 2016-02 requires lessees to recognize a lease liability and a lease asset for all leases, including operating leases, with a term greater than 12 months on its balance sheet. ASU 2016-02 also expands the required quantitative and qualitative disclosures surrounding leases. ASU 2016-02 is effective for the Company beginning January 1, 2019. Early adoption is permitted. The Company has determined that the adoption of ASU 2016-02 will currently have no impact on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes” (“ASU 2015-17”). The standard requires that deferred tax assets and liabilities be classified as noncurrent on the balance sheet rather than being separated into current and noncurrent. The guidance was effective for annual periods beginning after December 31, 2016, with early adoption permitted. The Company adopted the guidance with no material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)”, to clarify the principles used to recognize revenue for all entities. In March 2016, the FASB issued ASU 2016-08 to further clarify the implementation guidance on principal versus agent considerations. The guidance is effective for annual and interim periods beginning after December 15, 2017, and early adoption is permitted. The Company has determined that the adoption of ASU 2014-09 will currently have no impact on its consolidated financial statements.

The Company reviews new accounting standards as issued. Although some of these accounting standards issued or effective after the end of the Company’s previous fiscal year may be applicable, the Company has not identified any standards that the Company believes merit further discussion other than as discussed above. The Company believes that none of the new standards will have a significant impact on the financial statements.

Earnings (Loss) Per Share

The Company presents both basic and diluted earnings per share (“EPS”) amounts. Basic EPS is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the period presented. Diluted EPS amounts are based upon the weighted average number of common and common equivalent shares outstanding during the period presented. The Company has not included the effects of warrants, stock options and convertible debt on net loss per share because to do so would be antidilutive.

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Following is the computation of basic and diluted net loss per share for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Basic and Diluted EPS Computation				
Numerator:				
Loss available to common stockholders'	\$ (851,446)	\$ (302,636)	\$ (2,693,646)	\$ (1,610,880)
Denominator:				
Weighted average number of common shares outstanding	75,123,280	69,955,847	73,837,107	69,695,772
Basic and diluted EPS	\$ (0.01)	\$ (0.00)	\$ (0.04)	\$ (0.02)

The shares listed below were not included in the computation of diluted losses

per share because to do so would have been antidilutive for the periods presented:

Stock options	545,000	445,000	545,000	445,000
Warrants	2,689,158	7,380,503	2,689,158	7,380,503
Convertible debt	647,813	623,067	647,813	623,067
Total shares not included in the computation of diluted losses per share	3,881,971	8,448,570	3,881,971	8,448,570

Note 2. Assets – Intellectual Property

On July 12, 2013, the Company, together with its wholly owned subsidiary, RenovaCare Sciences, entered into an asset purchase agreement (“APA”) with Dr. Jörg Gerlach, MD, PhD, pursuant to which RenovaCare Sciences purchased all of Dr. Gerlach’s rights, title and interest in the CellMisTTM System. Acquisition related costs amounted to \$52,852 and were capitalized together with the cash payment upon the closing of the transaction in July 2013 of \$100,002. Intangible assets amounted to \$152,854 at September 30, 2017 and December 31, 2016.

Note 3. Contract Payable

On June 9, 2014, the Company, together with its wholly owned subsidiary, RenovaCare Sciences, entered into an amended asset purchase agreement (the “Amended APA”) with Dr. Jörg Gerlach, MD, PhD, pursuant to which

RenovaCare Sciences purchased all of Dr. Gerlach's rights, title and interest in the CellMist™ System. The Amended APA provided for cash payments of \$300,000 as partial consideration for the purchase which are payable as follows: (a) \$100,000 on December 31, 2014; (b) \$50,000 on December 31, 2015; (c) \$50,000 on December 31, 2016; and (d) \$100,000 on December 31, 2017. At September 30, 2017, \$100,000 of the amount payable to Dr. Gerlach was recorded as current liabilities in the accompanying consolidated balance sheet.

Note 4. Debt

September 9, 2016, \$700,000 Convertible Promissory Note

On September 9, 2016, the Company entered into a loan agreement (the “**Loan Agreement**”) with Kalen Capital Corporation (“**KCC**”); KCC is wholly owned by Mr. Harmel S. Rayat, the Company's majority shareholder. Pursuant to the terms of the Loan Agreement, KCC agreed to loan the Company up to \$900,000 at an annual interest rate of 7% per year, compounded quarterly. KCC provided the Company with an initial loan in the amount of \$700,000, which was evidenced by a convertible promissory note (the “**Note**”); the remaining \$200,000 may be loaned prior to December 31, 2017, upon the mutual agreement of the Company and KCC. The Note, including any interest due thereon, may be prepaid at any time without penalty. The Note matures on December 31, 2017, and, beginning on the first anniversary of the Note, can be converted, at KCC's sole discretion, into shares of the Company's common stock at conversion rate equal to the lesser of: (i) \$1.54, or the closing price of the Company's common stock on the day prior to the issuance of the Note or (ii) a 20% discount to the average closing price of the Company's common stock for the five days prior to the date on which KCC elects to convert the Note, subject to a floor price of \$1.23 per share.

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Per the Loan Agreement, the Company issued KCC a Series E Stock Purchase Warrant (the “**Series E Warrant**”) to purchase up to 584,416 shares of the Company’s common stock at a purchase price of the lesser of: (i) \$1.54, the closing price of the Company’s common stock on the day prior to issuance of the Series E Warrant; or (ii) a 20% discount to the average closing price of the Company’s common stock for the five days prior to the date on which KCC elects to exercise the Series E Warrant. The Series E Warrant is exercisable for a period of five years from the date of issuance and may be exercised on a cashless basis.

The Loan Agreement provides KCC with registration rights for all of the shares issuable upon conversion of the Note, including conversion of the note issued for the remaining \$200,000, if applicable, and exercise of the Series E Warrant, beginning on the first anniversary of the Loan Agreement.

The Company calculated the debt discount related to the Note and Series E Warrant by first allocating the respective fair value of the Note and Series E Warrant based upon their relative fair values to the total Note proceeds. The fair value of the Series E Warrant issued with the Note was calculated using the Black-Scholes option pricing model and the following assumptions: exercise price - \$1.25 per share; market price of common stock - \$1.54 per share; estimated volatility – 92.3%; risk free interest rate - 1.23%; expected dividend rate - 0% and expected life - 5.0 years. The resulting fair value of \$340,735 was allocated to the Series E Warrant. The intrinsic value of the beneficial conversion feature amounted to \$359,265. The resulting \$700,000 discount to the Note is being accreted over the 1.25 year term of the Note.

During the three and nine months ended September 30, 2017, the Company recognized \$13,051 and \$38,093 of interest expense and \$134,728 and \$399,791 of accretion related to the debt discount. The remaining debt discount of \$134,728 will be amortized over the next quarter through December 31, 2017.

February 2017, \$445,000 Convertible Promissory Notes

Between February 23, 2017 and March 9, 2017, the Company entered into three separate loan agreements containing identical terms (the “**February 2017 Loan Agreements**”) with Joseph Sierchio (“**Sierchio**”), an investor (the “**Investor**”) and KCC (collectively, the “**Holders**”). Pursuant to the terms of the February 2017 Loan Agreements, Sierchio and the Investor each agreed to loan the Company \$25,000 and KCC agreed to loan the Company \$395,000 at an annual interest rate of 7% per year, compounded quarterly. Each loan was evidenced by a convertible promissory note (collectively, the “**February 2017 Notes**”). The February 2017 Notes, including any interest due thereon, may not be prepaid without the consent of the Holders. The February 2017 Notes mature on February 23, 2018, and, beginning on the one month anniversary, can be converted, at the Holders’ sole discretion, into shares of the Company’s common stock at conversion rate equal to the lesser of: (i) \$3.45, the closing price of the Company’s common stock on the day prior to the issuance of the February 2017 Notes or (ii) a 20% discount to the average closing price of the Company’s common stock for the five days prior to the date on which the Holder(s) elect to convert the February 2017 Note(s),

subject to a floor price of \$2.76.

Per the February 2017 Loan Agreement, the Company issued Sierchio, the Investor and KCC a Series F Stock Purchase Warrant (the “**Series F Warrant**”) to purchase up to 7,246 shares, 7,246 shares and 114,493 shares, respectively, of the Company’s common stock at an exercise price per share equal to the lesser of: (i) \$3.45, the closing price of the Company’s common stock on the day prior to issuance of the Series F Warrant; or (ii) a 20% discount to the average closing price of the Company’s common stock for the five days prior to the date on which the Holder elects to exercise their Series F Warrant. The Series F Warrant is exercisable for a period of five years from the date of issuance and may be exercised on a cashless basis.

The February 2017 Loan Agreements provide the Holders with registration rights for all of the shares issuable upon conversion of the February 2017 Notes, including exercise of the Series F Warrants, beginning on the first anniversary of the February 2017 Loan Agreements.

On July 27, 2017, the Company repaid the Investor in full, including \$25,000 of note principal and \$676 of accrued interest.

During the three and nine months ended September 30, 2017, the Company recognized \$7,724 and \$18,548 of interest expense and \$121,939 and \$275,286 of accretion related to the debt discount. The remaining debt discount of \$168,000 will be amortized over the next two quarters through March 31, 2018.

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Note 5. Common Stock and Warrants

Common Stock

At June 30, 2017, the Company had 500,000,000 authorized shares of common stock with a par value of \$0.00001 per share, 75,225,418 shares of common stock outstanding and 19,338,572 shares reserved for issuance under the Company's 2013 Long-Term Incentive Plan (the "2013 Plan") as adopted and approved by the Company's Board of Directors (the "Board") on June 20, 2013 that provides for the grant of stock options to employees, directors, officers and consultants (See "Note 6. Stock Options").

During the nine months ended September 30, 2017, the Company had the following common stock related transactions:

- On July 21, 2017, the Company completed a self-directed offering of 460,250 units of the Company's equity securities (the "Units") at a price of \$2.44 per unit for \$1,122,610 in aggregate proceeds (the "**July 2017 Private Placement**"). Each unit consists of (a) one share of common stock and one Series G Stock Purchase Warrant (the "**Series G Warrants**") allowing the holder to purchase one share of the Company's common stock at a price of \$2.68 per share for a period of five years. The warrants may be exercised on a cashless basis. The relative fair value of the common stock was estimated to be \$634,782. The relative fair value of the Series G Warrants was estimated to be \$487,828 as determined based on the relative fair value allocation of the proceeds received. The Series G Warrants were valued using the Black-Scholes option pricing model using the following variables: market price of common stock - \$2.92 per share; estimated volatility – 102.23%; 5-year risk free interest rate – 1.81%; expected dividend rate - 0% and expected life - 5 years.
- On June 28, 2017, KCC exercised 114,493 Series F Warrants for \$3.01 per share resulting in the issuance of 114,493 shares of common stock and proceeds of \$344,624.
- March 1, 2017, KCC exercised 1,326,087 Series B Warrants and 3,500,000 Series C Warrants, on a cashless basis, resulting in the issuance of 4,273,831 shares of common stock.
- On February 17, 2017, Thomas Bold, the Company's President, CEO and Interim Chief Financial Officer exercised options to purchase up to 40,000 shares, on a cashless basis, resulting in the issuance of 34,296 shares of common stock.
- On February 10, 2017, Joseph Sierchio, a member of the Company's board of directors, exercised options to purchase up to 70,000 shares, on a cashless basis, resulting in the issuance of 38,642 shares of common stock.
-

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On February 2, 2017, Kenneth Kirkland, a member of the Company's board of directors, exercised options to purchase up to 40,000 shares, on a cashless basis, resulting in the issuance of 29,642 shares of common stock.

- On January 10, 2017, Dr. Gerlach exercised a Series A Warrant to purchase up to 240,000 shares, on a cashless basis, resulting in the issuance of 204,571 shares of common stock.

During the year ended December 31, 2016, the Company had the following common stock related transactions:

- issued 100,000 shares of common stock, upon the exercise of a Series D Warrant at an exercise price of \$1.10 per share resulting in \$110,001 of proceeds to the Company.
- issued 2,173,913 shares of common stock to KCC on February 2, 2016, upon the exercise of a portion of its Series B Warrant at an exercise price of \$0.46 per share resulting in \$1,000,000 of proceeds to the Company.
- issued 13,846 shares of common stock upon the cashless exercise of an option to purchase 20,000 shares by Joseph Sierchio, a director.

Table of Contents**Warrants**

The following table summarizes information about warrants outstanding at September 30, 2017 and December 31, 2016:

Description	Shares of Common Stock Issuable from Warrants Outstanding as of		Weighted Average Exercise Price	Expiration
	September 30, 2017	December 31, 2016		
Series A	720,000	960,000	\$ 0.35	July 12, 2019
Series B	-	1,326,087	\$ 0.46	November 29, 2018
Series C	-	3,500,000	\$ 0.49	November 29, 2018
Series D	910,000	910,000	\$ 1.10	June 5, 2020
Series E	584,416	584,416	\$ 1.54	September 8, 2021
Series F	14,492	-	\$ 3.45	February 23, 2022 & March 9, 2022
Series G	460,250	-	\$ 2.68	July 21, 2022
Total	2,689,158	7,280,503		

As consideration for the CellMist™ System and services performed in connection therewith, the Company issued to Dr. Gerlach a Series A Stock Purchase Warrant entitling him to purchase 1,200,000 shares of the Company's common stock at an exercise price of \$0.35 per share. Pursuant to the terms of the Amended APA, the Series A Warrant will vest in five equal installments of 240,000 shares on each of July 12, 2014, July 12, 2015, July 12, 2016, July 12, 2017 and July 12, 2018. On August 5, 2015, Dr. Gerlach exercised a Series A Warrant to purchase up to 240,000 shares on a cashless basis and the Company issued him 196,812 shares of common stock. On January 10, 2017, Dr. Gerlach exercised a Series A Warrant to purchase up to 240,000 shares on a cashless basis and the Company issued him 204,571 shares of common stock.

A Series B Warrant with an exercise price of \$0.46 to purchase 3,500,000 shares of common stock was issued on November 29, 2013 to KCC in connection with the 11/29 Financing. On February 2, 2016, KCC exercised a portion of its Series B Warrant for 2,173,913 shares of the Company's common stock resulting in proceeds of \$1,000,000. On March 1, 2017, KCC exercised, in full, on a cashless basis, the remaining 1,326,087 Series B Warrants resulting in the issuance of 1,181,194 shares of common stock.

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A Series C Warrant with an exercise price of \$0.49, to purchase 3,500,000 shares of common stock was issued on November 29, 2013 to KCC in connection with a financing. On March 1, 2017, KCC exercised, in full, on a cashless basis, the 3,500,000 Series C Warrants resulting in the issuance of 3,092,637 shares of common stock.

Series D Warrants with an exercise price of \$1.10 to purchase 1,010,000 shares of common stock were issued on June 5, 2015 in connection with the sale of units pursuant to a private placement. On December 6, 2016, a Series D Warrant to purchase shares was exercised resulting in the Company receiving \$110,000 of proceeds.

A Series E Warrant to purchase 584,416 shares of common stock was issued on September 9, 2016 in connection with the Loan Agreement. The Series E Warrant has an exercise price of the lesser of: (i) \$1.54, the closing price of the Company's common stock as quoted on the OTCQB on the day prior to issuance of the Warrant; or (ii) a twenty percent (20%) discount to the average closing price of the Company's common stock as quoted on the OTCQB for the five days prior to the date on which KCC elects to exercise the Warrant. The Warrant is exercisable for a period of five years from the date of issuance and may be exercised on a cashless basis using the formula contained therein.

Three Series F Warrants to purchase 128,985 shares of common stock were issued between February 22, 2017 and March 9, 2017 in connection with the February 2017 Loan Agreements. The Series F Warrants have an exercise price of the lesser of: (i) \$3.45, the closing price of the Company's common stock as quoted on the OTCQB on the day prior to issuance of the Warrant; or (ii) a twenty percent (20%) discount to the average closing price of the Company's common stock as quoted on the OTCQB for the five days prior to the date on which the holder elects to exercise the Warrant. The Warrant is exercisable for a period of five years from the date of issuance and may be exercised on a cashless basis using the formula contained therein. On June 28, 2017, KCC exercised 114,493 Series F Warrants for \$3.01 per share resulting in the issuance of 114,493 shares of common stock and proceeds of \$344,624.

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The Series G Warrants to purchase 460,250 shares of common stock were issued on July 21, 2017 in connection with the sale of units pursuant to the July 2017 Private Placement. The Series G Warrants have an exercise price of \$2.68, are exercisable for a period of five years from the date of issuance and may be exercised on a cashless basis using the formula contained therein.

Note 6. Stock Options

On June 20, 2013, the Company's Board adopted the 2013 Long-Term Incentive Plan and on November 15, 2013, a stockholder owning a majority of the Company's issued and outstanding stock approved adoption to the 2013 Plan. Pursuant to the terms of the 2013 Plan, an aggregate of 20,000,000 shares of the Company's common stock are reserved for issuance to the Company's officers, directors, employees and consultants in order to attract and hire key technical personnel and management. Options granted to employees under the 2013 Plan, including directors and officers who are employees, may be incentive stock options or non-qualified stock options; options granted to others under the 2013 Plan are limited to non-qualified stock options. As of September 30, 2017, there were 19,338,572 shares available for grant.

The 2013 Plan is administered by the Board or a committee designated by the Board. Subject to the provisions of the 2013 Plan, the Board has the authority to determine the officers, employees and consultants to whom options will be granted, the number of shares covered by each option, vesting rights and the terms and conditions of each option that is granted to them; however, no person may be granted in any of the Company's fiscal year, options to purchase more than 2,000,000 shares under the 2013 Plan, and the aggregate fair market value (determined at the time the option is granted) of the shares with respect to which incentive stock options are exercisable for the first time by an optionee during any calendar year cannot exceed \$100,000. Options granted pursuant to the 2013 Plan are exercisable no later than ten years after the date of grant.

The exercise price per share of common stock for options granted under the 2013 Plan will be the fair market value of the Company's common stock on the date of grant, using the closing price of the Company's common stock on the last trading day prior to the date of grant, except for incentive stock options granted to a holder of ten percent or more of the Company's common stock, for whom the exercise price per share will not be less than 110% of the fair market value. No option can be granted under the 2013 Plan after June 20, 2023.

Stock Option Activity

The following table summarizes stock option activity for the nine months ended September 30, 2017:

	Number of	Weighted	Weighted	Aggregate
	Options	Average	Average	Intrinsic Value
		Exercise Price	Remaining	
		(\$)	Contractual	(\$)
			Term	
Outstanding at December 31, 2015	257,500	1.07		
Grants	187,500	1.92		
Forfeitures	(40,000)	1.65		
Exercises	(20,000)	0.80		
Outstanding at December 31, 2016	385,000	1.42		
Grants	310,000	4.20		
Exercises	(150,000)	1.12		
Outstanding at September 30, 2017	545,000	3.09	8.86 years	339,275
Exercisable at September 30, 2017	375,000	2.75	8.69 years	299,075
Available for grant at September 30, 2017	19,338,572			

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The fair value of each stock option is estimated at the date of grant using the Black-Scholes option pricing model. There were 310,000 stock options granted during the nine months ended September 30, 2017 with a weighted-average grant date fair value of \$3.38. There were 187,500 stock options granted during the nine months ended September 30, 2016 with a weighted-average grant date fair value of \$1.41. During the nine months ended September 30, 2017, there were 150,000 options exercised on a cashless basis resulting in the issuance of 102,582 shares of common stock, with an aggregate intrinsic value of \$397,100. There were no stock options exercised during the nine months ended September 30, 2016. Assumptions regarding volatility, expected term, dividend yield and risk-free interest rate are required for the Black-Scholes model. The volatility assumption is based on the Company's historical experience. The risk-free interest rate is based on a U.S. treasury note with maturity similar to the option award's expected life. The expected life represents the average period of time that options granted are expected to be outstanding. The assumptions for volatility, expected life, dividend yield and risk-free interest rate for options granted are presented in the table below:

	2017	2016
Risk-free interest rate	1.93% - 2.39%	1.23%-1.41%
Expected life in years	5.5 – 10.0	5.5
Weighted Avg. Expected Volatility	98% - 106%	92%
Expected dividend yield	0	0

The share-based compensation cost resulting from stock option grants, including those previously granted and vesting over time is expensed ratably over the respective vesting periods. During the three months ended September 30, 2017 and 2016, the Company recognized \$127,478 and \$12,951, respectively, in share-based compensation. During the nine months ended September 30, 2017 and 2016, the Company recognized \$748,350 and \$287,238, respectively, in share-based compensation. Stock-based compensation has been included in the Consolidated Statement of Operations as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Research and development	\$ 10,725	\$ -	\$ 75,515	\$ -
General and administrative	116,753	12,951	672,835	287,238
Total	\$ 127,478	\$ 12,951	\$ 748,350	\$ 287,238

The following table summarizes information about stock options outstanding and exercisable at September 30, 2017:

Range of Exercise Prices	Stock Options Outstanding			Stock Options Exercisable		
	Number of Shares	Weighted Average	Weighted Average	Number of Shares	Weighted Average	Weighted Average

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	Subject to Outstanding Options	Contractual Life (years)	Exercise Price	Subject To Options Exercise	Remaining Contractual Life (Years)	Exercise Price
0.80	10,000	6.87	0.80	10,000	6.87	0.80
1.05	55,000	6.50	1.05	35,000	6.50	1.05
1.25	7,500	7.71	1.25	7,500	7.71	1.25
1.34	7,500	7.75	1.34	7,500	7.75	1.34
1.65	10,000	8.09	1.65	10,000	8.09	1.65
1.70	7,500	8.04	1.70	7,500	8.04	1.70
1.91	130,000	8.46	1.91	130,000	8.46	1.91
2.28	7,500	8.81	2.28	7,500	8.81	2.28
4.20	310,000	9.62	4.20	160,000	9.62	4.20
Total						