OptimizeRx Corp
Form 10-Q
May 15, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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 **March 31, 2014**
[ ] Transition Report pursuant to 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from __________ to __________
Commission File Number: **000-53605**

OptimizeRx Corporation

(Exact name of registrant as specified in its charter)

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

407 6th Street

Rochester, MI, 48307
(Address of principal executive offices)

248-651-6568
(Registrant's telephone number)

____
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days

[X] Yes [ ] No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

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

[ ] Large accelerated filer Accelerated filer [ ] Non-accelerated filer
[X] Smaller reporting company

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

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 23,580,863 common shares as of May 12, 2014

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the SEC instructions to Form 10-Q. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the interim period ended March 31, 2014 are not necessarily indicative of the results that can be expected for the full year.

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OPTIMIZERx CORPORATION
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
AS OF MARCH 31, 2014 15

ASSETS	March 31, 2014	December 31, 2013
Current Assets		
Cash and cash equivalents	$4,030,730	$1,118,243
Accounts receivable	1,111,379	1,566,964
Prepaid expenses	11,805	11,771
Total Current Assets	5,153,914	2,696,978
Property and equipment, net	13,688	15,057
Other Assets		
Patent rights, net	903,617	885,950
Web-based technology, net	439,054	404,986
Security deposit	5,049	5,049
Total Other Assets	1,347,720	1,295,985
TOTAL ASSETS	$6,515,322	$4,008,020
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable - trade	$230,178	$188,739
Accounts payable - related party	570,000	570,000
Accrued expenses	146,042	12,000
Revenue share payable	797,725	1,193,661
Deferred revenue	168,714	4,252
Total Liabilities	1,912,659	1,968,652
Stockholders' Equity		
Preferred stock, $.001 par value, 10,000,000 shares authorized, 0 and 65 shares issued and outstanding	0	0
Common stock, $.001 par value, 500,000,000 shares authorized, 23,168,337 and 14,773,496 shares issued and outstanding	23,168	14,773
Stock warrants	3,147,709	18,148,049
Additional paid-in-capital	27,155,730	8,726,708
Deferred stock compensation	(454,409)	(233,942)
Accumulated deficit	(25,269,535)	(24,616,220)
Total Stockholders' Equity	4,602,663	2,039,368
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$6,515,322	$4,008,020

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

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OPTIMIZERx CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013

	For the three months ended March 31, 2014	For the three months ended March 31, 2013 (restated)
NET REVENUE	$1,317,347	$669,290
REVENUE SHARE EXPENSE	498,810	159,815
GROSS MARGIN	818,537	509,475
EXPENSES		
Operating expenses (See Note 16)	1,471,958	733,969
(LOSS) FROM OPERATIONS	(653,421)	(224,494)
OTHER INCOME (EXPENSE)		
Interest income	106	56
TOTAL OTHER INCOME (EXPENSE)	106	56
(LOSS) BEFORE PROVISION FOR INCOME TAXES	(653,315)	(224,438)
PROVISION FOR INCOME TAXES	-0-	-0-
NET (LOSS)	$(653,315)	$(224,438)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING: BASIC	16,683,894	14,232,196
NET (LOSS) PER SHARE: BASIC	$(0.04)	$(0.02)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING: DILUTED	16,683,894	14,232,196
NET (LOSS) PER SHARE: DILUTED	$(0.04)	$(0.02)

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

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OPTIMIZERx CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013

	For the three months ended March 31, 2014	For the three months ended March 31, 2013 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) for the period	$(653,315)	$(224,438)
Adjustments to reconcile net (loss) to net cash provided by operating activities:		
Depreciation and amortization	58,906	48,111
Stock options issued for services	59,620	-0-
Stock-based compensation	361,957	43,750
Changes in:		
Accounts receivable	455,585	(43,871)
Prepaid expenses	(34)	35,822
Accounts payable	41,439	1,993
Revenue share payable	(395,935)	119,612
Accrued expenses	134,042	(6,000)
Deferred revenue	164,462	31,520
NET CASH PROVIDED BY OPERATING ACTIVITIES	226,727	6,499
CASH FLOWS FROM INVESTING ACTIVITIES:		
Patent rights	(33,297)	(30,368)
Web development costs	(75,975)	-0-
NET CASH USED IN INVESTING ACTIVITIES	(109,272)	(30,368)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	10,000,000	-0-
Equity issuance costs	(1,204,968)	-0-
Purchase of common and preferred stock and warrants	(6,000,000)	-0-
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,795,032	-0-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,912,487	(23,869)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	1,118,243	284,263
CASH AND CASH EQUIVALENTS - END OF PERIOD	$4,030,730	$260,394
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$-0-	$-0-
Cash paid for income taxes	$-0-	$-0-
SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Common stock issued for equity issuance costs	$378,000	$-0-

Stock warrants issued for equity issuance costs	$1,110,211	$-0-
Cashless exercise of stock warrants	$106,405	$-0-
Common stock issued as deferred stock compensation	$285,187	$-0-

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

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OPTIMIZERx CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2014

NOTE 1 – NATURE OF BUSINESS

Optimizer Systems, LLC was formed in the State of Michigan on January 31, 2006. It then became a corporation in the State of Michigan on October 22, 2007 and changed its name to OptimizeRx Corporation. On April 14, 2008, RFID, Ltd., a Colorado corporation, consummated a reverse merger by entering into a share exchange agreement with the stockholders of OptimizeRx Corporation, pursuant to which the stockholders of OptimizeRx Corporation exchanged all of the issued and outstanding capital stock of OptimizeRx Corporation for 1,256,958 shares of common stock of RFID, Ltd., representing 100% of the outstanding capital stock of RFID, Ltd. As of April 30, 2008, RFID’s officers and directors resigned their positions and RFID changed its business to OptimizeRx’s business. On April 15, 2008, RFID, Ltd.’s corporate name was changed to OptimizeRx Corporation. On September 4, 2008, a migratory merger was completed, thereby changing the state of incorporation from Colorado to Nevada, resulting in the current corporate structure, in which OptimizeRx Corporation, a Nevada corporation, is the parent corporation, and OptimizeRx Corporation, a Michigan corporation, is a wholly-owned subsidiary (together, "OptimizeRx" and "the Company").

The wholly-owned subsidiary, OptimizeRx Corporation, is a technology solutions company targeting the health care industry. Their objective is to bring better access to better care through connecting patients, physicians and pharmaceutical manufacturers through technology. Once defined as a marketing and advertising company through its consumer website, OptimizeRx is maturing as a technology solutions provider as it launched its direct to physician solution, SampleMD. SampleMD allows physicians to search, print and send available sample trial vouchers and/or co-pay coupons on behalf of their patients. The SampleMD solution can either sit on the doctor’s desktop or can be integrated into the ePrescribing or Electronic Medical Records applications. OptimizeRx solutions provide pharmaceutical manufacturers either a direct to consumer and/or direct to physician channels for communicating and promoting their products. It provides health care providers a means to provide sampling and coupons without having to physically store samples on site, and it provides better access and affordability to the patients.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission (“SEC”), and should be read in conjunction with the audited financial statements and notes thereto contained in the Company's Form 10-K filed with the SEC as of and for the year ended December 31, 2013. In the opinion of management, all adjustments necessary for the financial statements to be not misleading for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.

Accounting Basis

The Company uses the accrual basis of accounting and accounting principles generally accepted in the United States of America ("GAAP" accounting). The Company has adopted a December 31 fiscal year end.

Principles of Consolidation

The financial statements reflect the consolidated results of OptimizeRx Corporation (a Nevada corporation) and its wholly owned subsidiary OptimizeRx Corporation (a Michigan corporation). All material inter-company transactions have been eliminated in the consolidation.

Cash and Cash Equivalents

For purposes of the accompanying financial statements, the Company considers all highly liquid instruments with an initial maturity of three months or less to be cash equivalents.

OPTIMIZERx CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments

The fair value of cash, accounts receivable, prepaid expenses, patent rights, web development costs, accounts payable, accounts payable – related party, accrued expenses and deferred revenue approximates the carrying amount of these financial instruments due to their short-term nature. The fair value of long-term debt, which approximates its carrying value, is based on current rates at which the Company could borrow funds with similar remaining maturities.

Fair value is defined as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk including our own credit risk.

In addition to defining fair value, the disclosure requirements around fair value establish a fair value hierarchy for valuation inputs which is expanded. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1 – inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

Level 2 – inputs are based upon significant observable inputs other than quoted prices included in Level 1, such as quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques. The Company's stock options and warrants are valued using level 3 inputs.

The carrying value of the Company's financial assets and liabilities which consist of cash and cash equivalents, accounts receivable, prepaid expenses, patent rights, web development costs, security deposit, accounts payable, accounts payable – related party, accrued expenses, revenue share payable and deferred revenue are valued using level 1 inputs. The Company believes that the recorded values approximate their fair value due to the short maturity of such instruments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, exchange or credit risks arising from these financial instruments.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are reported at realizable value, net of allowances for doubtful accounts, which is estimated and recorded in the period the related revenue is recorded. The Company has a standardized approach to estimate and review the collectability of its receivables based on a number of factors, including the period they have been outstanding. Historical collection and payer reimbursement experience is an integral part of the estimation process related to allowances for doubtful accounts. In addition, the Company regularly assesses the state of its billing operations in order to identify issues, which may impact the collectability of these receivables or reserve estimates. Bad debt expense was $0 for the three months ended March 31, 2014 and 2013. The allowance for doubtful accounts was $0 as of March 31, 2014 and December 31, 2013.

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OPTIMIZERx CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

The capital assets are being depreciated over their estimated useful lives, three to seven years using the straight-line method of depreciation for book purposes.

Revenue Recognition and Revenue Share Expense

All revenue is recognized when it is earned. Revenues are generated either through the Company's web-based activities, in which we earn revenue from advertising and lead generation activities, from our SampleMD activities by which we deliver eCoupons and eVouchers through a distribution network of ePrescribers and Electronic Health Record technology providers (channel partners), or from reselling services for other of our partners products that complement our business.

For our SampleMD business the company recognizes setup fees that are required for integrating client offerings and campaigns into the SampleMD content delivery system and network. Setup fees are recognized upon completion of the setup and launch of the client's campaign within the SampleMD system. As the eCoupons and or eVouchers are distributed through the SampleMD platform and network of channel partners (a transaction), these transactions are recorded and revenue is recognized. Revenue for transactions can be realized as cost per distribution or cost per redemption depending on the client contract. Additionally, the company also recognizes revenue for providing program performance reporting and maintenance, either by the company directly delivering reports or by providing access to its online reporting portal that the client can utilize. These fees are administered monthly and recognized as recurring monthly revenue.

The company on occasion has also resold products and or services that are available through our channel partners, and that is complementary to our core businesses and client base. In these events net revenue is recognized as this is a commission based revenue split that the company recognizes.

Based on the volume of transactions that are delivered through our channel partner network, we provide a revenue share to compensate the partner for their promotion of the campaign through their network. Revenue shares are a negotiated percentage of the transaction fee depending upon if the revenue is generated through distributions and or redemptions and can also be specific to special considerations and campaigns. Traditionally, revenue share has been recognized between 25% and 50% of the transaction value.

Income Taxes

Income taxes are computed using the asset and liability method. Under the asset and liability method, deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the currently enacted tax rates and laws. A valuation allowance is provided for the amount of deferred tax assets that, based on available evidence, are not expected to be realized.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions have been made in determining the depreciable lives of such assets and the allowance for doubtful accounts receivable. Actual results could differ from these estimates.

Concentration of Credit Risks

The Company maintains its cash and cash equivalents in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts; however, amounts in excess of the federally insured limit may be at risk if the bank experiences financial difficulties.

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OPTIMIZERx CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Research and Development

The Company's key members are part of a continual research development team and monitor new technologies, trends, services and partnerships that can provide the Company with additional services, value to healthcare and pharmaceutical industries and to the patients it serves.

The Company seeks to educate team members through understanding of all market dynamics that have the potential to affect the business both short term and longer term. The primary goal is to help patients better afford and access the medicines their doctor prescribes, as well as other healthcare products and services they need. Based on this, the Company continually seeks better ways to meet this mission through technology, better user experiences and new ways to engage industries to provide new support for patients needing their products. The Company is always seeking new services and solutions to offer. At this time, the three current platforms provide robust opportunities and growth during the next five years.

Earnings Per Common and Common Equivalent Share

The computation of basic earnings per common share is computed using the weighted average number of common shares outstanding during the year. The computation of diluted earnings per common share is based on the weighted average number of shares outstanding during the year plus common stock equivalents which would arise from the exercise of warrants outstanding using the treasury stock method and the average market price per share during the year. Options, warrants and convertible preferred stock which are common stock equivalents are included in the per share calculation for the three months ended March 31, 2014. They have not been included in the diluted earnings per share calculation for the year ended December 31, 2013 since their effect is anti-dilutive.

Impairment of Long-Lived Assets

The Company continually monitors events and changes in circumstances that could indicate carrying amounts of long-lived assets may not be recoverable. When such events or changes in circumstances are present, the Company assesses the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through undiscounted expected future cash flows. If the total of the future cash flows is less than the carrying amount of those assets, the Company recognizes an impairment loss based on the excess of the carrying amount over the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell.

Recently Issued Accounting Guidance

The Company does not expect the adoption of recently issued accounting pronouncements to have a significant impact on the Company's results of operations, financial position or cash flow.

NOTE 3 – PREPAID EXPENSES

Prepaid expenses consisted of the following as of March 31, 2014 and December 31, 2013:

	2014	2013
Insurance	$6,756	$6,722
Rent	5,049	5,049
Total prepaid expenses	$11,805	$11,771

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OPTIMIZERx CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2014

NOTE 4 – PROPERTY AND EQUIPMENT

The Company owned equipment recorded at cost which consisted of the following as of March 31, 2014 and December 31, 2013:

	2014	2013
Computer equipment	$22,360	$22,360
Furniture and fixtures	11,088	11,088
Subtotal	33,448	33,448
Accumulated depreciation	(19,760)	(18,391)
Property and equipment, net	$13,688	$15,057

Depreciation expense was $1,369 and $1,407 for the three months ended March 31, 2014 and 2013, respectively.

NOTE 5 – WEB-BASED TECHNOLOGY

The Company has capitalized costs in developing their web-based technology, which consisted of the following as of March 31, 2014 and December 31, 2013:

	2014	2013
OptimizeRx web-based technology	$154,133	$154,133
SampleMD web-based technology	602,517	602,517
SampleMD 2.0 web-based technology	224,035	148,060
Subtotal, web-based technology	980,685	904,710
Accumulated amortization	(482,548)	(440,641)
Impairment	(59,083)	(59,083)
Web-based technology, net	$439,054	$404,986

Amortization is recorded using the straight-line method over a period of five years. The Company is currently developing enhanced SampleMD web-based technology and has capitalized $224,035, which was completed in March

2014. Accordingly, amortization has been recorded. Amortization expense for the web-based technology costs was $41,907 and $32,572 for the three months ended March 31, 2014 and 2013, respectively.

NOTE 6 – PATENT AND TRADEMARKS

On April 26, 2010, the Company acquired from an officer and shareholder the technical contributions and assignment of all exclusive rights to and for the SampleMD patent in exchange for 300,000 shares of common stock to be granted at the discretion of the seller in addition to 200,000 stock options valued at $360,000. The shares were valued on the grant date at $570,000 and have been recorded as a payable to the related party.

The Company has capitalized costs in purchasing and defending the SampleMD patent, which consisted of the following as of March 31, 2014 and December 31, 2013:

	2014	2013
Patent rights and intangible assets	$930,000	$930,000
Patent defense costs	111,707	87,993
New patents and trademarks	72,178	62,595
Accumulated amortization	(210,268)	(194,638)
Patent rights and intangible assets, net	$903,617	$885,950

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OPTIMIZERx CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2014

NOTE 6 – PATENT AND TRADEMARKS (CONTINUED)

The Company began amortizing the patent, using the straight-line method over the estimated useful life of 17 years, once it was put into service in July 2010. In 2013, the Company began incurring costs related to defense of the patent. These costs have been capitalized and will be amortized using the straight-line method over the remaining useful life of the original patent. Amortization expense was $15,630 and $14,132 for the three months ended March 31, 2014 and 2013, respectively.

NOTE 7 – ACCRUED EXPENSES

Accrued expenses consisted of the following at March 31, 2014 and December 31, 2013:

	March 31, 2014	December 31, 2013
Audit fees	$0	$ 12,000
Payroll taxes	146,042	0
	$146,042	$ 12,000

NOTE 8 – DEFERRED REVENUE

The Company has signed several contracts with customers for either the distribution or redemption of coupons. The payments are not taken into revenue until either the coupon is distributed to a patient or the coupon has been redeemed depending on the specific contract. The distributions and redemptions are tracked by the Company's administrative tool. Additionally, customer setup contracts that have been paid in full are deferred until the Company has completed the obligations of the contacts. Deferred revenue was $168,714 and $4,252 as of March 31, 2014 and December 31, 2013, respectively.

NOTE 9 – RELATED PARTY TRANSACTIONS

During the year ended December 31, 2010, the Company acquired from an officer and shareholder the technical contributions and