

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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

or

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: **000-55136**

Nemus Bioscience, Inc.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction
of incorporation or organization)

45-0692882

(I.R.S. Employer
Identification No.)

600 Anton Blvd., Suite 1100, Costa Mesa, CA 92626

(Address of principal executive offices) (Zip Code)

(949) 396-0330

(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 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.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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.

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

As of November 14, 2017, there were 30,970,663 shares of the issuer's \$0.001 par value common stock issued and outstanding.

TABLE OF CONTENTS

PART I—FINANCIAL INFORMATION

<u>Item 1.</u>	<u>Financial Statements:</u>	<u>4</u>
	<u>Consolidated Balance Sheets as of September 30, 2017 (Unaudited) and December 31, 2016</u>	<u>4</u>
	<u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2017 and 2016 (Unaudited)</u>	<u>5</u>
	<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2017 and 2016 (Unaudited)</u>	<u>6</u>
	<u>Notes to the Unaudited Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2.</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>24</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>28</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>28</u>

PART II – OTHER INFORMATION

<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>29</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>29</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>29</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	<u>29</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>29</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>29</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>30</u>

FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report on Form 10-Q that are not descriptions of historical facts are forward-looking statements that are based on management's current expectations and assumptions and are subject to risks and uncertainties. If such risks or uncertainties materialize or such assumptions prove incorrect, our business, operating results, financial condition and stock price could be materially negatively affected. In some cases, you can identify forward-looking statements by terminology including "anticipates," "believes," "can," "continue," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "should," "will," "would" or the negative of these terms or other comparable terminology. Factors that could cause actual results to differ materially from those currently anticipated include those set forth in the section titled "Risk Factors" including, without limitation, risks relating to:

- our need for substantial additional funds in order to continue our operations, and the uncertainty of whether we will be able to obtain the funding we need;
- the results of our research and development activities, including uncertainties relating to the discovery of potential product candidates and the preclinical and clinical testing of our product candidates;
- the early stage of our product candidates presently under development;
- our ability to obtain and, if obtained, maintain regulatory approval of our current product candidates, and any of our other future product candidates, and any related restrictions, limitations, and/or warnings in the label of any approved product candidate;
- our ability to retain or hire key scientific or management personnel;
- our ability to protect our intellectual property rights that are valuable to our business, including patent and other intellectual property rights;
- our dependence on the University of Mississippi, third-party manufacturers, suppliers, research organizations, testing laboratories and other potential collaborators;
- our ability to develop successful sales and marketing capabilities in the future as needed;
- the size and growth of the potential markets for any of our approved product candidates, and the rate and degree of market acceptance of any of our approved product candidates;
- competition in our industry; and
- regulatory developments in the United States and foreign countries.

We operate in a rapidly-changing environment and new risks emerge from time to time. As a result, it is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. The forward-looking statements included in this report speak only as of the date hereof, and except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this report to conform these statements to actual results or to changes in our expectations.

[Table of Contents](#)

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

**NEMUS BIOSCIENCE, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS**

ASSETS		
	(Unaudited) September 30, 2017	December 31, 2016
Current assets		
Cash and cash equivalents	\$ 41,978	\$ 64,820
Restricted cash	4,428	37,500
Prepaid expenses	253,481	170,155
Other current assets	6,183	7,014
Total current assets	<u>306,070</u>	<u>279,489</u>
Property and equipment, net	<u>2,645</u>	<u>9,584</u>
Other assets		
Deposits and other assets	34,290	34,290
Total other assets	<u>34,290</u>	<u>34,290</u>
Total assets	<u>\$ 343,005</u>	<u>\$ 323,363</u>
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT		
	(Unaudited) September 30, 2017	December 31, 2016
Current liabilities		
Accounts payable	\$ 990,123	\$ 274,650
Accrued payroll and related expenses	445,498	167,337
Accrued license and patent reimbursement fees	80,893	-
Accrued expenses	115,492	98,700
Provision for conversion of Series B preferred stock	24,428	118,821
Deferred rent	-	2,450
Total current liabilities	<u>1,656,434</u>	<u>661,958</u>
Noncurrent liabilities		
Series B warrants	791,813	1,112,308
Total noncurrent liabilities	<u>791,813</u>	<u>1,112,308</u>
Total liabilities	<u>2,448,247</u>	<u>1,774,266</u>
Commitments and contingencies (Note 3)		
Redeemable Convertible Series B Preferred Stock, \$0.001 par value, 20 million shares authorized; 3,291.375 issued and outstanding as of September 30, 2017 and 4,031 issued and outstanding as of December 31, 2016, net of \$403,171 of issuance costs; \$3.3 million liquidation preference as of September 30, 2017	955,045	1,169,663
Convertible Series C Preferred Stock, \$0.001 par value, 20 million shares authorized; none issued and outstanding as of September 30, 2017, 386 issued and outstanding as of December 31, 2016	-	293,669
Convertible Series D Preferred Stock, \$0.001 par value, 20 million shares authorized; 200 issued and outstanding as of September 30, 2017, net of \$30,557 of issuance costs; \$0.2 million liquidation preference as of September 30, 2017	169,446	-
Stockholders' deficit		
Common stock, \$0.001 par value; 236 million shares authorized; 30,670,663 issued and outstanding as of September 30, 2017 and 21,563,163 issued and outstanding as of December 31, 2016	30,671	21,563
Additional paid-in-capital	9,159,372	7,163,064
Warrants	982,911	837,711
Accumulated deficit	<u>(13,402,687)</u>	<u>(10,936,573)</u>
Total stockholders' deficit	<u>(3,229,733)</u>	<u>(2,914,235)</u>

Total liabilities and stockholders' deficit

\$ 343,005 \$ 323,363

See accompanying notes to the unaudited consolidated financial statements.

[Table of Contents](#)

**NEMUS BIOSCIENCE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)**

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Operating expenses				
Research and development	\$ 88,550	\$ 80,525	\$ 241,302	\$ 675,840
General and administrative	673,080	775,623	2,631,408	2,882,682
Total operating expenses	<u>761,630</u>	<u>856,148</u>	<u>2,872,710</u>	<u>3,558,522</u>
Operating loss	<u>(761,630)</u>	<u>(856,148)</u>	<u>(2,872,710)</u>	<u>(3,558,522)</u>
Other expense (income)				
Change in fair value of warrant liability	(281,497)	27,665	(320,495)	(1,584,969)
Change in fair value of conversion rights of Series B preferred stock	-	61,058	(88,532)	82,872
Net Loss before income taxes	<u>(480,133)</u>	<u>(944,871)</u>	<u>(2,463,683)</u>	<u>(2,056,425)</u>
Provision for income taxes	-	400	2,431	1,200
Net loss	<u>\$ (480,133)</u>	<u>\$ (945,271)</u>	<u>\$ (2,466,114)</u>	<u>\$ (2,057,625)</u>
Less: Preferred deemed dividend	-	-	711,000	-
Net loss applicable to common shareholders	<u>\$ (480,133)</u>	<u>\$ (945,271)</u>	<u>\$ (3,177,114)</u>	<u>\$ (2,057,625)</u>
Basic earnings per common share	<u>\$ (0.02)</u>	<u>\$ (0.05)</u>	<u>\$ (0.12)</u>	<u>\$ (0.10)</u>
Diluted earnings per common share	<u>\$ (0.02)</u>	<u>\$ (0.05)</u>	<u>\$ (0.12)</u>	<u>\$ (0.10)</u>
Weighted average shares of common stock outstanding				
Basic	<u>30,191,744</u>	<u>19,913,163</u>	<u>27,068,308</u>	<u>19,910,426</u>
Diluted	<u>30,191,744</u>	<u>19,913,163</u>	<u>27,068,308</u>	<u>19,910,426</u>

See accompanying notes to the unaudited consolidated financial statements.

[Table of Contents](#)

**NEMUS BIOSCIENCE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)**

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Cash flows from operating activities:		
Net loss	\$ (2,466,114)	\$ (2,057,625)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	6,801	11,505
Loss on disposal of fixed assets	138	-
Stock-based compensation expense	456,507	544,823
Amortization of warrants and stock issued for services (1)	20,000	51,539
Change in fair value of conversion rights of Series B preferred stock	(88,532)	82,872
Change in fair value of warrant liabilities	(320,495)	(1,584,969)
Common stock issued for services	187,550	-
Changes in assets and liabilities:		
Restricted cash	33,072	-
Prepaid expenses (1)	(73,326)	(119,361)
Other current assets	831	7,500
Accounts payable	715,473	262,016
Accrued payroll and related expenses	278,161	25,534
Accrued license and patent reimbursement fees	80,893	(17,500)
Accrued expenses and other liabilities	14,342	(96,497)
Net cash used in operating activities	<u>(1,154,699)</u>	<u>(2,890,163)</u>
Cash flows from investing activities:		
Purchases of property and equipment	-	(11,116)
Net cash used in investing activities	<u>-</u>	<u>(11,116)</u>
Cash flows from financing activities:		
Proceeds from Series D preferred stock issuance, net of \$183,343 issuance costs	<u>1,131,857</u>	<u>-</u>
Net cash provided by financing activities	<u>1,131,857</u>	<u>-</u>

Net (decrease) in cash and cash equivalents	(22,842)	(2,901,279)
Cash and cash equivalents, beginning of period	<u>64,820</u>	<u>3,221,209</u>
Cash and cash equivalents, end of period	<u>\$ 41,978</u>	<u>\$ 319,930</u>

Supplemental disclosures of cash-flow information:

Cash paid during the period for:

Interest	<u>\$ -</u>	<u>\$ -</u>
Income taxes	<u>\$ 1,631</u>	<u>\$ -</u>

Supplemental disclosures of non-cash financing and investing activities:

- (1) During the nine months ended September 30, 2016, warrants issued to service providers for consulting services were valued at \$22,245 and were recorded as Prepaid expenses and are being amortized over the service period.

During the nine months ended September 30, 2017, warrants issued to service providers for consulting services were valued at \$30,000 and were recorded as Prepaid expenses and are being amortized over the service period.
- (2) During the nine months ended September 30, 2017, preferred deemed dividends of \$536,000 was recognized on Series D Preferred Stock and \$175,000 on Series C Preferred Stock.

See accompanying notes to the unaudited consolidated financial statements.

[Table of Contents](#)

NEMUS BIOSCIENCE, INC. AND SUBSIDIARY

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Information as of and for the three and nine month periods ended September 30, 2017 and 2016 is unaudited)

1. Nature of Operations, Business Activities and Summary of Significant Accounting Policies

Nature of Operations and Basis of Presentation

Nemus Bioscience, Inc. is a biopharmaceutical company that plans to develop and commercialize therapeutics from cannabinoids through a partnership with the University of Mississippi. The University of Mississippi ("UM") is federally permitted and licensed to cultivate cannabis for research purposes. Unless otherwise specified, references in these Notes to the Unaudited Consolidated Financial Statements to the "Company," "we" or "our" refer to Nemus Bioscience, Inc., a Nevada corporation formerly known as Load Guard Logistics, Inc. ("LGL"), together with its wholly-owned subsidiary, Nemus, a California corporation ("Nemus"). Nemus became the wholly owned subsidiary of Nemus Bioscience, Inc. through the Merger (as defined below).

Nemus Bioscience, Inc. (formerly LGL) was incorporated in Nevada on March 16, 2011. Nemus was incorporated in California on July 17, 2012. Our headquarters are located in Costa Mesa, California.

As of September 30, 2017, the Company has devoted substantially all of its efforts to securing product licenses, raising capital, and building infrastructure, and has not realized revenue from its planned principal operations.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates. The most significant accounting estimates inherent in the preparation of our financial statements include estimates as to the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources. Such estimates and judgments are utilized for stock-based compensation expense and equity securities with embedded features as discussed below.

Liquidity and Going Concern

The Company has incurred operating losses and negative cash flows from operations since our inception. As of September 30, 2017, we had cash and cash equivalents of \$41,978. In November 2017, the Company entered into a Series F Preferred Stock Financing (see Note 8) for gross proceeds totaling \$2,000,000. The Company anticipates that it will continue to incur net losses into the foreseeable future in order to advance and develop a number of potential drug candidates into preclinical development activities and support its corporate infrastructure which includes the costs associated with being a public company. Without additional funding, management believes that the Company will not have sufficient funds to meet its obligations within one year after the date the consolidated financial statements were issued. These conditions give rise to substantial doubt as to the Company's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Company's continued existence is dependent on its ability to raise additional sufficient funding to cover operating expenses and to invest in operations and development activities. The Company plans to continue to pursue funding through public or private equity or debt financings, strategic collaborations, licensing arrangements, asset sales, government grants or other arrangements. However, the Company cannot provide any assurances that such additional funds will be available on reasonable terms, or at all. If the Company raises additional funds by issuing equity securities, substantial dilution to existing stockholders would result. If the Company is unable to secure adequate additional funding, the Company may be forced to reduce spending, extend payment terms with suppliers, liquidate assets where possible, suspend or curtail planned programs or cease operations.

[Table of Contents](#)

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The carrying value of those investments approximates their fair market value due to their short maturity and liquidity. Cash and cash equivalents include cash on hand and amounts on deposit with financial institutions, which amounts may at times exceed federally insured limits. The Company has not experienced any losses on such accounts and does not believe it is exposed to any significant credit risk.

Restricted Cash

A deposit of \$4,428 as of September 30, 2017 and \$37,500 as of December 31, 2016 was restricted from withdrawal and held by a bank in the form of a certificate of deposit. This certificate serves as collateral for payment of the Company's credit cards.

Fair Value Measurements

Certain assets and liabilities are carried at fair value under U.S. GAAP. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. A fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last is considered unobservable, is used to measure fair value:

Level 1: Valuations for assets and liabilities traded in active markets from readily available pricing sources such as quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs (other than Level 1 quoted prices) such as quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active for identical or similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to determining the fair value of the assets or liabilities, including pricing models, discounted cash flow methodologies and similar techniques.

The carrying values of our financial instruments, including, cash and cash equivalents, prepaid expenses, accounts payable, and accrued expenses approximate their fair value due to the short maturities of these financial instruments. The Series B warrant liability and the conversion liability for the Series B Preferred Stock were valued utilizing Level 3 inputs primarily from a recent third party independent appraisal.

Property and Equipment, Net

As of September 30, 2017, property and equipment, net, was \$2,645, consisting primarily of computers and equipment. Expenditures for additions, renewals and improvements will be capitalized at cost. Depreciation will generally be computed on a straight-line method based on the estimated useful life of the related assets currently ranging from two to three years. Maintenance and repairs that do not extend the life of assets are charged to expense when incurred. When properties are disposed of, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is reported in the period the transaction takes place.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted cash flows expected to be generated by the asset. If the carrying amount exceeds its estimated future undiscounted cash flows, an impairment charge is recognized by the amount by which the carrying amount exceeds the fair value of the asset.

The costs incurred for the rights to use licensed technologies in the research and development process, including licensing fees and milestone payments, will be charged to research and development expense as incurred in situations where the Company has not identified an alternative future use for the acquired rights, and are capitalized in situations where there is an identified alternative future use. No cost associated with the use of licensed technologies has been capitalized to date.

[Table of Contents](#)

Income Taxes

The Company accounts for deferred income tax assets and liabilities based on differences between the financial reporting and tax bases of assets and liabilities, and net operating loss carry forwards (the "NOLs") and other tax credit carry forwards. These items are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the period that includes the enactment date. Any interest or penalties would be recorded in the Company's statement of operations in the period incurred.

The Company records a valuation allowance to reduce the deferred income tax assets to the amount that is more likely than not to be realized. In making such determinations, management considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. As a result, there are no income tax benefits reflected in the statement of operations to offset pre-tax losses.

The Company recognizes a tax benefit from uncertain tax positions when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the position.

Convertible Instruments

We account for hybrid contracts that feature conversion options in accordance with generally accepted accounting principles in the United States. ASC 815, *Derivatives and Hedging Activities* ("ASC 815") requires companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments according to certain criteria. The criteria includes circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument.

Conversion options that contain variable settlement features such as provisions to adjust the conversion price upon subsequent issuances of equity or equity linked securities at exercise prices more favorable than that featured in the hybrid contract generally result in their bifurcation from the host

instrument.

We account for convertible instruments when we have determined that the embedded conversion options should not be bifurcated from their host instruments, in accordance with ASC 470-20, *Debt with Conversion and Other Options* (“ASC 470-20”). Under ASC 470-20, we record, when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. We account for convertible instruments (when we have determined that the embedded conversion options should be bifurcated from their host instruments) in accordance with ASC 815. Under ASC 815, a portion of the proceeds received upon the issuance of the hybrid contract is allocated to the fair value of the derivative. The derivative is subsequently marked to market at each reporting date based on current fair value, with the changes in fair value reported in results of operations.

We also follow ASC 480-10, *Distinguishing Liabilities from Equity* (“ASC 480-10”) in its evaluation of the accounting for a hybrid instrument. A financial instrument that embodies an unconditional obligation, or a financial instrument other than an outstanding share that embodies a conditional obligation, that the issuer must or may settle by issuing a variable number of its equity shares shall be classified as a liability (or an asset in some circumstances) if, at inception, the monetary value of the obligation is based solely or predominantly on any one of the following: (a) a fixed monetary amount known at inception (for example, a payable settled with a variable number of the issuer’s equity shares); (b) variations in something other than the fair value of the issuer’s equity shares (for example, a financial instrument indexed to the Standard and Poor’s S&P 500 Index and settled with a variable number of the issuer’s equity shares); or (c) variations inversely related to changes in the fair value of the issuer’s equity shares (for example, a written put option that could be net share settled). Hybrid instruments meeting these criteria are not further evaluated for any embedded derivatives, and are carried as a liability at fair value at each balance sheet date with a re-measurement reported in interest expense in the accompanying Consolidated Statements of Operations.

[Table of Contents](#)

Warrants Issued in Connection with Financings

We generally account for warrants issued in connection with debt and equity financings as a component of equity, unless the warrants include a conditional obligation to issue a variable number of shares or there is a deemed possibility that we may need to settle the warrants in cash. For warrants issued with a conditional obligation to issue a variable number of shares or the deemed possibility of a cash settlement, we record the fair value of the warrants as a liability at each balance sheet date and record changes in fair value in other (income) expense in the Consolidated Statements of Operations.

Revenue Recognition

The Company has not begun planned principal operations and has not generated any revenue since inception.

Research and Development Expenses

Research and development ("R&D") costs are expensed when incurred. These costs may consist of external research and development expenses incurred under agreements with third-party contract research organizations and investigative sites, third-party manufacturing organizations and consultants; license fees; employee-related expenses, which include salaries, benefits and stock-based compensation for the personnel involved in our preclinical and clinical drug development activities; and facilities expense, depreciation and other allocated expenses; and equipment and laboratory supplies.

Stock-Based Compensation Expenses

Stock-based compensation cost is estimated at the grant date based on the fair value of the award, and the cost is recognized as expense ratably over the

vesting period. We use the Black-Scholes option pricing model for estimating the grant date fair value of stock options and warrants using the following assumptions:

- Exercise price - We determined the exercise price based on valuations using the best information available to management at the time of the valuations.
- Volatility - We estimate the stock price volatility based on industry peers who are also in the early development stage given the limited market data available in the public arena.
- Expected term - The expected term is based on a simplified method which defines the life as the weighted average of the contractual term of the options and warrants and the weighted-average vesting period for all open awards.
- Risk-free rate - The risk-free interest rate for the expected term of the option or warrant is based on the average market rate on U.S. treasury securities in effect during the period in which the awards were granted.
- Dividends - The dividend yield assumption is based on our history and expectation of paying no dividends.

Stock-Based Compensation for Non-Employees

The Company accounts for warrants and options issued to non-employees under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 505-50, *Equity - Equity Based Payments to Non-Employees*, using the Black-Scholes option-pricing model. The value of such non-employee awards is periodically re-measured over the vesting terms and at each quarter end.

Segment Information

FASB ASC No. 280, *Segment Reporting*, establishes standards for reporting information about reportable segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group ("CODM"), in deciding how to allocate resources and in assessing performance. The CODM evaluates revenues and gross profits based on product lines and routes to market. Based on the early development stage of our operation, we operate in a single reportable segment.

[Table of Contents](#)

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. The Company is required to record all components of comprehensive income (loss) in the consolidated financial statements in the period in which they are recognized. Net income (loss) and other comprehensive income (loss), net of their related tax effect, arrived at a comprehensive income (loss). For the three and nine months ended September 30, 2017 and 2016, the comprehensive income (loss) was equal to the net income (loss).

Earnings per share

The Company applies FASB ASC No. 260, *Earnings per Share*. Basic earnings (loss) per share is computed by dividing earnings (loss) available to common stockholders by the weighted-average number of shares of common stock outstanding. Diluted earnings or loss per share would include the dilutive effect of outstanding warrants and awards granted to employees under stock-based compensation plans. Potentially dilutive shares of the Company's common stock are excluded from the calculation of diluted loss per common share because their effect would be anti-dilutive for the periods presented. For the three and nine month periods ended September 30, 2017, 3,291,375 shares of Series B Preferred Stock convertible into 13,165,500 common shares at \$0.25 per share, 200 shares of Series D Preferred Stock convertible into 800,000 common shares at \$0.25 per share, warrants to purchase 11,649,500 common shares and stock options exercisable for 1,130,000 common shares outstanding at the end of the period are excluded from the calculation of diluted loss per common share. For the three and nine month periods ended September 30, 2016, 4,492 shares of Series B Preferred Stock convertible into 5,615,000 common shares at \$0.80 per share, warrants to purchase 10,879,500 common shares and stock options exercisable for 1,142,500 common shares outstanding at the end of the period are excluded from the calculation of diluted loss per common share.

Recent accounting pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-9, *Revenue from Contracts with Customers*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. Adoption is permitted as early as the first quarter of 2017 and is required by the first quarter of 2018. Given that the Company has no revenues to date, we plan to adopt this pronouncement when initial revenue recognition occurs.

In February 2016, the FASB issued ASU No. 2016-02 *Leases* (Topic 842) intended to improve financial reporting around leasing transactions. The ASU

affects all companies and other organizations that lease assets such as real estate, airplanes, and manufacturing equipment. The ASU will require organizations that lease assets - referred to as "lessees"- to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. For public companies, the standard is effective for fiscal years beginning after December 15, 2018 and interim periods therein. Earlier adoption is permitted for any annual or interim period for which consolidated financial statements have not yet been issued. The Company is currently evaluating the potential impact that the adoption of ASU No. 2016-02 may have on its consolidated financial statements. The Company will adopt this ASU beginning on January 1, 2019 and will utilize the modified retrospective transition approach, as prescribed within this ASU.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15 *Statement of Cash Flows* (Topic 230) that requires entities to show the changes in the total cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. For public companies, the guidance is effective for fiscal years beginning after December 15, 2017 and early adoption is permitted. The Company is currently evaluating the potential impact that this standard may have on its consolidated financial statements and will adopt this ASU beginning on January 1, 2018.

In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features; II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*, (ASU 2017-11). Part I of this update addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of this update addresses the difficulty of navigating *Topic 480, Distinguishing Liabilities from Equity*, because of the existence of extensive pending content in the FASB Accounting Standards Codification. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable non-controlling interests. The amendments in Part II of this update do not have an accounting effect. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company is currently assessing the potential impact of adopting ASU 2017-11 on its financial statements and related disclosures.

[Table of Contents](#)

2. University of Mississippi Agreements

In July 2013, the Company entered into a Memorandum of Understanding (MOU) with UM to engage in joint research of extracting, manipulating, and studying cannabis in certain forms to develop intellectual property (IP) with the intention to create and commercialize therapeutic medicines. Nemus will own all IP developed solely by its employees and will jointly own all IP developed jointly between Nemus and UM employees. The term of the MOU agreement is five years and the parties agree to negotiate separate research agreements upon the identification of patentable technologies as well as any deemed to be a trade secret. The agreement may be terminated by either party with three months' written notice to the other party.

UM 5050 pro-drug agreements:

On September 29, 2014, the Company executed three license agreements with UM pursuant to which UM granted us exclusive, perpetual, worldwide licenses, including the right to sublicense, to intellectual property related to UM 5050, a pro-drug formulation of tetrahydrocannabinol, or THC for products administered through each of ocular, oral or rectal delivery. The license agreement for the field of oral delivery also includes rights to UM 1250, a bio-adhesive hot melt extruded film for topical and mucosal adhesion application and drug delivery. The license agreements contain certain milestone and royalty payments, as defined therein. There is an annual fee of \$25,000 per license agreement, payable on the anniversary of each effective date. The aggregate milestone payments under the license agreements, if the milestones are achieved, is \$2.1 million. These licenses also require the Company to reimburse UM for patent costs incurred related to these products under license. The agreements will terminate upon expiration of the patents, breach or default of the license agreements, or upon 60 days' written notice by the Company to UM.

On October 15, 2014, we signed a renewable option agreement for the rights to explore other routes of delivery of UM 5050 not yet agreed upon and/or in combination with other cannabinoids or other compatible compounds. There was a one-time up-front option payment of \$10,000 for a six-month option period that has subsequently been renewed under the same financial terms and conditions. The most recent renewal occurred for the period from June 14, 2017 to December 14, 2017.

UM 8930 analogue agreements:

On December 14, 2015, the Company executed two license agreements with UM pursuant to which UM granted us exclusive, perpetual, worldwide licenses, including the right to sublicense, to intellectual property related to UM 8930, an analogue formulation of cannabidiol ("CBD") for products administered through each of ocular or rectal delivery. The license agreements contain certain milestone and royalty payments, as defined therein. There is an annual fee of \$25,000 per license agreement, payable on the anniversary of each effective date. The aggregate milestone payments under the license agreements, if the milestones are achieved, is \$1.4 million. These licenses also require the Company to reimburse UM for patent costs incurred related to these products under license. These license agreements will terminate upon expiration of the patents, breach or default of the license agreements, or upon 60 days' written notice by the Company to UM.

On December 14, 2015, we signed a renewable option agreement for the rights to explore other routes of delivery of UM8930 not yet agreed upon and/or in combination with other cannabinoids or other compatible compounds. There was a one-time up-front option payment of \$10,000 for a six-month option period that has subsequently been renewed under the same financial terms and conditions. The most recent renewal occurred for the period from June 14, 2017 to December 14, 2017.

[Table of Contents](#)

UM 5070 license agreement:

On January 10, 2017, the Company entered into a license agreement with UM pursuant to which UM granted the Company an exclusive, perpetual license, including the right to sublicense, under intellectual property related to UM 5070, a platform of cannabinoid-based molecules to research, develop and commercialize products for the treatment of infectious diseases. The license agreement culminates roughly one year of screening and target molecule identification studies especially focused on therapy-resistant infectious organisms like methicillin-resistant *Staphylococcus aureus* (MRSA). The license agreement contains certain milestone and royalty payments, as defined therein. There was a one-time upfront payment of \$65,000 paid in four equal monthly installments that started on February 1, 2017. There is an annual fee of \$25,000 per license agreement, payable on the anniversary of each effective date. The aggregate milestone payment under the license agreements, if the milestones are achieved, is \$0.7 million. These licenses also require the Company to reimburse UM for patent costs incurred related to these products under license. These license agreements will terminate upon expiration of the patents, breach or default of the license agreements, or upon 60 days' written notice by the Company to UM.

3. Commitments and Contingencies

Lease Commitments

On September 1, 2014, the Company signed an operating lease for laboratory and office space at the Innovation Hub, Insight Park located on the UM campus. The lease term commenced on October 1, 2014 and expires on December 31, 2017. There is annual escalating rent provisions and two months of free rent in the agreement. The total cash payments over the life of the lease are divided by the total number of months in the lease period and the average rent will be charged to expense each month during the lease period. The monthly amount charged to rent expense is \$9,267.

In October 2014, we signed a lease agreement for our corporate office headquarters that consists of approximately 4,087 square feet located at 650 Town Center Drive, Suite 1770, Costa Mesa, CA 92626. The lease expired on October 31, 2016 and our monthly rent was \$5,373, payable in equal monthly installments with annual escalations. There was no subsequent renewal upon expiration of this lease. The Company currently maintains its principal executive offices located in a shared office suite located at 600 Anton Blvd., Suite 1100, Costa Mesa, CA, 92626 under a month-to-month agreement.

In November 2015, the Company entered into an operating lease for its office and lab furnishings both in Costa Mesa and the Innovation Hub laboratory. The lease expires on November 3, 2017 and the monthly lease payments are \$7,559.

Total net rent expense related to our operating leases for the three months ended September 30, 2017 and 2016, was \$54,555 and \$79,771, respectively. For the nine months ended September 30, 2017 and 2016, total net rent expense from operating leases was \$168,863 and \$240,746, respectively.

Future minimum payments under the non-cancelable portion of our operating leases as of September 30, 2017 are as follows:

Years ended December 31,

2017	\$	8,066
2018		-
2019		-
2020		-
2021		-
Thereafter		-
Total	\$	<u>8,066</u>

[Table of Contents](#)

Related Party Matters

In June 2014, our subsidiary entered into an independent contractor agreement with K2C, Inc. (“K2C”), which is wholly owned by the Company’s Executive Chairman and Co-Founder, Mr. Cosmas N. Lykos, pursuant to which we pay K2C a monthly fee for services performed by Mr. Lykos for our company. The agreement expired on June 1, 2017 and was automatically renewed for one year pursuant to the terms of the agreement. The monthly fee under the agreement was \$10,000 and increased to \$20,000 effective April 1, 2017. For the nine months ended September 30, 2017 and 2016, total expense incurred under this agreement was \$150,000 and \$90,000 respectively. Total expense incurred under this agreement was \$60,000 for the three months ended September 30, 2017 and \$30,000 for the three months ended September 30, 2016. The Company had an outstanding balance of \$150,000 due to K2C as of September 30, 2017. Under the agreement, Mr. Lykos is also eligible to participate in our health, death and disability insurance plans. In addition, Mr. Lykos is a participant in our change in control severance plan.

Legal Matters

General Litigation and Disputes

From time to time, in the normal course of our operations, we may be a party to litigation and other dispute matters and claims. . Litigation can be expensive and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavorable outcome to any legal matter, if material, could have a materially adverse effect on our operations or our financial position, liquidity or results of operations. As of September 30, 2017, there were no pending or threatened lawsuits or claims that could reasonably be expected to have a material effect on the Company’s financial position or results of operations, but the Company has subsequently filed a petition commencing arbitration as described in Note 8. Subsequent Events – *Pending Series E Preferred Stock Financing and Filing for Arbitration*

Government Proceedings

Like other companies in the pharmaceutical industry, we are subject to extensive regulation by national, state and local government agencies in the United States. As a result, interaction with government agencies occurs in the normal course of our operations. It is possible that criminal charges and substantial fines and/or civil penalties or damages could result from any government investigation or proceeding. As of September 30, 2017, the Company had no proceedings or inquiries.

Change in Control Severance Plan

In February 2015, we adopted a change in control severance plan, in which our named executive officers participate, that provides for the payment of severance benefits if the executive's service is terminated within twelve months following a change in control, either due to a termination without cause or upon a resignation for good reason (as each term is defined in the plan).

In either such event, and provided the executive timely executes and does not revoke a general release of claims against the Company, he or she will be entitled to receive: (i) a lump sum cash payment equal to at least six months of the executive's monthly compensation, plus an additional month for each full year of service over six years, (ii) Company-paid premiums for continued health insurance for a period equal to length of the cash severance period or, if earlier, when executive becomes covered under a subsequent employer's healthcare plan, and (iii) full vesting of all then-outstanding unvested stock options and restricted stock awards.

Contract Manufacturing Organization ("CMO") Agreement

On February 5, 2016, the Company entered into a letter agreement ("Agreement") with a third party contract manufacturing organization ("CMO") pursuant to which the CMO is to provide services to Nemus for process development and analytical method development and qualification for Nemus' pro-drug of tetrahydrocannabinol, or THC, as well as for sample production and a stability study.

Pursuant to the terms of the Agreement, Nemus will pay an estimated \$154,000 to \$183,000 in fees and expenses for the initial evaluation and development of a process for the production of Nemus' pro-drug of THC to ensure reproducibility, quality and safety and an estimated \$142,900 for analytical method development and qualification. The Company did not recognize any research and development expense towards these fees for the three and nine months ended September 30, 2017. The Company recognized \$18,896 and \$225,244, respectively, as research and development expense towards these fees for the three and nine months ended September 30, 2016. After the initial evaluation and development, Nemus has agreed to pay additional fees and expenses for sample production of Nemus' pro-drug of THC and a stability study, as well as possible extensions to or modifications of the aforementioned projects.

[Table of Contents](#)

Nemus may at any time cancel or delay any project under the Agreement prior to the scheduled start date. Nemus must reimburse the CMO for costs incurred prior to and including the date of cancellation plus any reasonable and foreseeable costs associated with stopping work on any project, including the CMO's loss of revenue incurred as the result of reserving production facilities for Nemus' exclusive use. Nemus may terminate the Agreement in whole or in part at any time upon 30 days' written notice.

4. Stockholders' Deficit and Redeemable Convertible Series B and Convertible Series C & D Preferred Stock

Common Stock

In March 2016, a Series B Preferred stockholder converted 8 shares of its preferred stock to common stock, resulting in the issuance of 10,000 shares of common stock at an effective price of \$0.80 per share. In October 2016, as a result of the Series C Preferred Stock Agreement (discussed below), the conversion price of the Series B Preferred Stock was reset to \$0.40. From October 2016 to December 31, 2016, Series B Stockholders converted 461 shares of its preferred stock to common stock, resulting in the issuance of 1,152,500 shares of common stock.

In October 2016, the Company entered into a technology license agreement with a third-party manufacturing company in order to biosynthetically manufacture cannabinoids. The terms of the agreement called for the issuance of 100,000 shares of common stock. The Company recorded \$50,000 as research and development expense for the fourth quarter of 2016 to reflect the fair market value of the common stock issued. The fair market value was determined utilizing the Company's closing stock price as of the approval date of the license agreement by the Company's Board of Directors.

In December 2016, a Series C Preferred stockholder converted 39 shares of its preferred stock to common stock as allowed under the Series C Preferred Stock Agreement, resulting in the issuance of 97,500 shares of common stock at an effective price of \$0.40 per share. On December 29, 2016, as a result of the signing of the Series D Preferred Stock Agreement (discussed below), the conversion price of the Series B and Series C Preferred Stock was reset to \$0.25. From the date of this reset to December 31, 2016, a Series C Stockholder converted 75 shares of its preferred stock to common stock, resulting in the issuance of 300,000 shares of common stock.

In March 2017, the Company issued 605,000 shares of common stock with par value of \$0.001 to a third party in exchange for advisory services performed related to raising additional capital. The Company recorded \$187,550 as general and administrative expense for the first quarter of 2017 to reflect the fair market value of the common stock issued. The fair market value was determined utilizing the Company's closing stock price as of the approval date of the advisory fee by the Company's Board of Directors.

For the nine months ended September 30, 2017, a Series C Preferred stockholder converted 386 shares of its preferred stock to common stock as allowed under the Series C Preferred Stock Agreement, resulting in the issuance of 1,544,000 shares of common stock at an effective price of \$0.25 per share. This represented the completion of converting all of the original Series C Preferred shares to common stock.

For the three and nine months ended September 30, 2017, the Series B Preferred stockholders converted 84 and 739.625 shares, respectively, of their preferred stock to common stock as allowed under the Series B Preferred Stock Agreement, resulting in the issuance of 336,000 and 2,958,500 shares of common stock at an effective price of \$0.25 per share.

For the three and nine months ended September 30, 2017, the Series D Preferred stockholders converted 506 and 1,000 shares, respectively, of their preferred stock as allowed under the Series D Preferred Stock Agreement, resulting in the issuance of 2,024,000 and 4,000,000 shares of common stock at an effective price of \$0.25 per share.

Preferred Stock

The Company has authorized 20,000,000 shares of preferred stock with a par value of \$0.001 per share.

[Table of Contents](#)

Redeemable Convertible Series B Preferred Stock: In August 2015, the Company sold 5,000 shares of Series B Convertible Preferred Stock and warrants to purchase 6,250,000 shares of the Company's common stock for an aggregate purchase price of \$1,000 per share resulting in gross proceeds of \$5.0 million. Each share of preferred stock is convertible into 1,250 shares of common stock which results in an effective conversion price of \$0.80 per common share and can be converted by the holder at any time. The Series B Preferred Stock also has a "down-round" protection feature provided to the investors if the Company subsequently issues or sell any shares of common stock, stock options, or convertible securities at a price less than the conversion price of \$0.80 per common share. The conversion price is automatically adjusted down to the price of the instrument being issued. In October 2016, as a result of the Series C Preferred Stock Agreement (as discussed below), the conversion price of the Series B Preferred Stock was reset to \$0.40. On December 29, 2016, as a result of the Series D Preferred Stock Agreement (as discussed below), the conversion price of the Series B Preferred Stock was reset to \$0.25. The Series B Preferred Stock has liquidation preference over other preferred shares and common stock and have voting rights equal to the number of common shares into which each holder's preferred stock is convertible as of the record date. If dividends are declared on the common stock, the holders of the preferred stock shall be entitled to participate in such dividends on an as-if converted basis. The warrants are exercisable at a price of \$1.15 per share, subject to reset, and expire five years from the issuance date.

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, Series B Preferred stockholders receive an amount per share equal to the conversion price of \$0.25, subject to down-round adjustment, multiplied by the as-if converted share amount of 13,165,500 common shares, totaling \$3.291 million. If upon the liquidation, the assets are insufficient to permit payments to the Series B holders, all assets legally available will be distributed in a pro rata basis among the Series B holders in proportion to the full amounts they would otherwise be entitled to receive. Any remaining assets are distributed pro rata among the common stockholders.

Subject to certain trigger events occurring, the Series B Preferred stockholders have the right to force the Company to redeem the shares of preferred stock at a price per preferred share equal to the greater of (A) 115% of the conversion amount and (B) the product of (1) the conversion rate in effect at such

time and (2) the greatest closing sale price of the Common Stock during the period beginning on the date immediately preceding such triggering event and ending on the date such holder delivers the notice of redemption. Such triggering events include:

- Failure of the Series B Registration Statement to be declared effective by the Securities and Exchange Commission, or the SEC, on or prior to the date that is ninety days after the Effectiveness Deadline;
- Suspension of the Company's common stock from trading for a period of (2) consecutive trading days;
- Failure of the Company to deliver all the shares of the common stock or make the appropriate cash payments in a timely manner upon conversion of the Series B Preferred;
- Any default of indebtedness;
- Any filing of voluntary or involuntary bankruptcy by the Company;
- A final judgment in excess of \$100,000 rendered against the Company;
- Breach of representations and warranties in the Stock Purchase Agreement; and
- Failure to comply with the Series B Certificate of Designation or Rule 144 requirements.

As certain of these triggering events are considered to be outside the control of the Company, the Series B Preferred Stock is considered to be contingently redeemable convertible and as a result, has been classified as mezzanine equity in the Company's balance sheet. As further described in Note 8, Series B Preferred Stock Amendment, we amended the terms of the Series B Preferred Stock to exclude certain financing transactions from triggering the redemption right described above.

In December 2015, a Series B Preferred stockholder converted 500 shares of its preferred stock to common stock at the conversion rate of 1,250:1 resulting in the issuance of 625,000 shares of common stock. In March 2016, another Series B Preferred stockholder converted 8 shares of its preferred stock to common stock at the same ratio resulting in the issuance of 10,000 shares of common stock. In October 2016, as a result of the Series C Preferred Stock Agreement (discussed below), the conversion price of the Series B Preferred Stock was reset to \$0.40. From October 2016 to December 31, 2016, Series B Stockholders converted 461 shares of its preferred stock to common stock, at the conversion rate of 2,500:1 resulting in the issuance of 1,152,500 shares of common stock. On December 29, 2016, as a result of the Series D Preferred Stock Agreement (as discussed below), the conversion price of the Series B Preferred Stock was reset to \$0.25. For the three and nine months ended September 30, 2017, Series B stockholders converted 84 and 739,625 shares, respectively, at a conversion rate of 4000:1 resulting in the issuance of 336,000 and 2,958,500 shares of common stock. As a result of these conversions, the liquidation preference for the Series B Preferred Stock has been reduced to \$3.291 million as of September 30, 2017.

[Table of Contents](#)

Convertible Series C Preferred Stock: In October 2016, the Company sold 500 shares of Series C convertible preferred stock with a purchase price of \$1,000 per share for gross proceeds of \$500,000 to a healthcare investment fund under the Series C Preferred Stock Agreement. Each share of Series C Preferred Stock is convertible into 2,500 shares of common stock which results in an effective conversion price of \$0.40 per common share. This resulted in the reduction of the conversion price of the Series B Preferred Stock to \$0.40 and a reduction in the exercise price of the Series B warrants to \$0.40. On December 29, 2016, as a result of the Series D Preferred Stock Agreement (as discussed below), the conversion price of the Series C Preferred Stock was reset to \$0.25. As part of the terms of the Series C Preferred Stock Agreement, the Company entered into a Registration Rights Agreement with the purchaser to file a registration statement to register for resale the shares of common stock underlying the preferred shares within 30 days following the closing of the agreement. Each Preferred Stock is convertible into common stock at any time at the election of the investor. The terms of the Series C Convertible Preferred Stock are as follows:

- Dividends: Except for stock dividends or other distributions payable in shares of common stock, for which adjustments are to be made to the conversion price, as described below, the stockholder shall be entitled to receive dividends on preferred stock equal to (on an as-if-converted-to-common-stock basis) and in the same form as dividends actually paid on shares of the common stock. No other dividends shall be paid on the preferred stock.
- Conversion: The preferred stock may be converted at any time, at the option of the holder, into shares of common stock at a conversion price of \$0.25 per share ("Series C Conversion Price"). The Series C Conversion Price will be adjusted for customary structural changes such as stock splits or stock dividends. In the event that the Company enters into a merger, consolidation or transaction of a similar effect, the Series C stockholder shall be entitled to receive, upon conversion of the preferred stock, the number of shares of common stock of the successor or acquiring corporation of the Company, if it is the surviving corporation, and any additional consideration that would have been received by a holder of the number of shares of common stock into which the preferred stock is convertible immediately prior to such event.
- Down-Round Protection: The Series C Conversion Price is also subject to "down-round" anti-dilution adjustment which means that if the Company sells common stock or common stock equivalents at a price below the Series C Conversion Price, the Series C Conversion Price will be reduced to an amount equal to the issuance price of such additional shares of common stock or common stock equivalents.
- Voting Rights: Except as required by law, the Series C Preferred Stock does not have voting rights.
- Most Favored Nation Provision: If there is a subsequent financing, the Series C stockholder may elect to exchange its Series C Preferred Stock for the security issued on a dollar for dollar basis.
- Participation Rights: For a twelve month period from the date of the financing, the Series C investors will have the right to participate in subsequent financings up to fifty percent of such financing.

Liquidation Provision: In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the Series C Preferred stockholder receives an amount per share equal to the conversion price of \$0.40, subject to down-round adjustment, multiplied by the as-if converted share amount of 1,250,000 common shares. If upon the liquidation, the assets are insufficient to permit payments to the Series C and Series D holders, all assets legally available will be distributed to the Series B Preferred stockholders and then any remaining amount is distributed on a pro rata basis among the Series C and Series D holders in proportion to the full amounts they would otherwise be entitled to receive. Any remaining assets are distributed pro rata among the common stockholders.

The Series C Preferred Stock is considered to be contingently redeemable convertible and as a result, has been classified as mezzanine equity in the Company's balance sheet because the Most Favored Nation provision is a redemption feature that is outside the control of the Company.

At the date of the financing, because the effective conversion rate of the preferred stock was less than the market value of the Company's common stock, a beneficial conversion feature of \$325,000 has been recorded as a discount to the preferred stock and an increase to additional paid in capital. Because the preferred stock is perpetual, in October 2016, the Company fully amortized the discount related to the beneficial conversion feature on the deemed dividend in the consolidated statement of operations.

[*Table of Contents*](#)

In December 2016, the Series C Preferred stockholder converted 39 shares of its preferred stock to common stock as allowed under the Series C Preferred Stock Agreement, resulting in the issuance of 97,500 shares of common stock at an effective price of \$0.40 per share. On December 29, 2016, as a result of the signing of the Series D Preferred Stock Agreement (as discussed below), the conversion price of the Series B and Series C Preferred Stock was reset to \$0.25. From the date of this reset to December 31, 2016, a Series C Stockholder converted 75 shares of their preferred stock to common stock, resulting in the issuance of 300,000 shares of common stock. For the three months ended March 31, 2017, the Series C stockholder converted 386 shares at a conversion rate of 4000:1 resulting in the issuance of 1,544,000 shares of common stock. As a result, all Series C Preferred Stock has been converted to common stock and there is no liquidation preference outstanding as of September 30, 2017.

In addition, as a result of the Series D financing and the adjustment in the conversion price, a beneficial conversion feature of \$175,000 has been recorded as a discount to the preferred stock and an increase to additional paid in capital. Because the preferred stock is perpetual, in January 2017, the Company fully amortized the discount related to the beneficial conversion feature on the deemed dividend in the consolidated statement of operations.

Convertible Series D Preferred Stock: In January 2017, the Company sold 1,200 shares of Series D convertible preferred stock with a purchase price of \$1,000 per share for gross proceeds of \$1,200,000 to a healthcare investment fund and other private investors under the Series D Preferred Stock

Agreement. Each share of Series D Preferred Stock is convertible into 4,000 shares of common stock which results in an effective conversion price of \$0.25 per common share. This resulted in the reduction of the conversion price of the Series B and Series C Preferred Stock to \$0.25 and a reduction in the exercise price of the Series B warrants to \$0.25. As part of the terms of the Series D Preferred Stock Agreement, the Company entered into a Registration Rights Agreement with the purchasers to file a registration statement to register for resale the shares of common stock underlying the preferred shares within 30 days following the closing of the agreement. Each Preferred Stock is convertible into common stock at any time at the election of the investor. The terms of the Series D Convertible Preferred Stock are identical to those of the Series C Convertible Preferred Stock agreement discussed above with the exception of the conversion price which is \$0.25 per common share.

The Series D stock has liquidation preference over common stock. In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, Series D Preferred stockholders receive an amount per share equal to the conversion price of \$0.25, subject to down-round adjustment, multiplied by the as-if converted share amount of 800,000 common shares, totaling \$0.2 million as of September 30, 2017.

The Company also considered the classification of the Series D Preferred Stock Agreement, the Series D Preferred Stock is considered to be contingently redeemable convertible and as a result, has been classified as mezzanine equity in the Company's balance sheet because the Most Favored Nation provision is a redemption feature that is outside the control of the Company.

At the date of the financing, because the effective conversion rate of the preferred stock was less than the market value of the Company's common stock, a beneficial conversion feature of \$536,000 has been recorded as a discount to the preferred stock and an increase to additional paid in capital. Because the preferred stock is perpetual, in January 2017, the Company fully amortized the discount related to the beneficial conversion feature on the deemed dividend in the consolidated statement of operations.

For the three and nine months ended September 30, 2017, the Series D stockholders converted 0 and 1,000 shares, respectively, at a conversion rate of 4000:1 and a conversion price of \$0.25 per share resulting in the issuance of 2,024,000 and 4,000,000 shares of common stock.

Pending Series E Preferred Stock: On May 3, 2017, the Company entered into a securities purchase agreement to sell 1,000,000 shares of a new Series E Preferred Stock, par value \$0.001 per share, at a purchase price of \$20.00 for each preferred share for aggregate gross proceeds of \$20,000,000 (the "Series E Preferred Stock Financing"). The purchaser did not provide funding to close the transaction on July 10, 2017 as required under the securities purchase agreement. In connection with the signing of the securities purchase agreement, an affiliate of the purchaser entered into a financial guarantee to the benefit of the Company that provides for payment of the purchase price in full within 90 days of exercise. The Company exercised this guarantee on July 12, 2017 and the guarantor failed to honor the guarantee. The Company has subsequently filed a petition commencing arbitration as described in Note 8. Subsequent Events – *Pending Series E Preferred Stock Financing and Filing for Arbitration*

[Table of Contents](#)

Warrants

Warrants vested and outstanding as of September 30, 2017 are summarized as follows:

Source	Exercise Price	Term (Years)	Amount Issued and Outstanding
Pre 2015 Common Stock Warrants	\$ 1.00	6-10	4,000,000
2015 Common Stock Warrants	\$ 1.15-\$5.00	5-10	442,000
2015 Series B Financing (see Note 6)			
Common Stock Warrants to Series B Stockholders	\$ 0.25	5	6,250,000
Placement Agent Warrants	\$ 0.25	5	187,500
2016 Common Stock Warrants to Service Providers	\$ 1.15	10	40,000
2016 Series C Placement Agent Warrants	\$ 0.40	5	125,000
2017 Series D Placement Agent Warrants	\$ 0.25	5	480,000
2017 Common Stock Warrants to Service Providers	\$ 0.41	5	125,000
Total warrants vested and outstanding as of September 30, 2017			<u>11,649,500</u>

2016 Warrants

In November 2016, the Company entered into an agreement with one of its investors to provide advisory services on all matters including financing. In conjunction with this agreement, the Company issued warrants that vest immediately to purchase 40,000 shares of common stock with an exercise price of \$1.15 per share with a term of ten years. The Company estimated the warrant value to be \$18,400 utilizing the Black-Scholes option pricing model and recorded this amount to general and administrative expense for the fourth quarter due to the immediate vesting.

In November 2016, the Company issued 125,000 warrants to purchase common stock to its investment banker in exchange for services rendered in conjunction with the Series C Preferred Stock financing. The warrants vest immediately and have an exercise price of \$0.40 per share with a term of five years. The Company estimated the value of the warrants to be \$37,500 utilizing the Black-Scholes option pricing model and recorded this amount to

issuance costs.

2017 Warrants

In January 2017, the Company issued 480,000 warrants to purchase common stock to its investment banker in exchange for services rendered in conjunction with the Series D Preferred Stock financing. The warrants vest immediately and have an exercise price of \$0.25 per share with a term of five years. The Company estimated the value of the warrants to be \$115,200 utilizing the Black-Scholes option pricing model and recorded this amount to issuance costs.

In February 2017, the Company entered into an agreement with one of its investors to provide advisory services on all matters including financing. In conjunction with this agreement, the Company issued warrants that vest immediately to purchase 125,000 shares of common stock with an exercise price of \$0.41 per share with a term of five years. The Company estimated the warrant value to be \$30,000 utilizing the Black-Scholes option pricing model and recorded this amount to general and administrative expense for the quarter due to the immediate vesting.

[Table of Contents](#)

The Company's Board of Directors considered various objective and subjective factors, along with input from management, to determine the fair value of the warrants, including:

- Contemporaneous valuation prepared by an independent third-party valuation specialist as of March 31, 2016, June 30, 2016, September 30, 2016, December 31, 2016, March 31, 2017, and June 30, 2017;
- Its results of operations, financial position and the status of research and development efforts and achievement of enterprise milestones;
- The composition of, and changes to, the Company's management team and Board of Directors;
- The lack of liquidity of its common stock as a newly public company;
- The Company's stage of development, business strategy and the material risks related to its business and industry;

- The valuation of publicly-traded companies in the biotechnology sectors;
- External market conditions affecting the biotechnology industry sectors;
- The likelihood of achieving a liquidity event for the holders of its common stock, such as an initial public offering, or IPO, or a sale of the Company, given prevailing market conditions;
- The state of the IPO market for similarly situated biotechnology companies; and
- Discussions held with bankers, potential investors, and preliminary term sheets received as part of management's capital raise efforts.

There are significant judgments and estimates inherent in the determination of the fair value of the Company's warrants. These judgments and estimates included the assumptions regarding its future operating performance, the time to completing a liquidity event and the determination of the appropriate valuation methods. If the Company had made different assumptions, its warrant valuation could have been significantly different.

Stock Option Plans: 2014 Omnibus Incentive Plan

The 2014 Omnibus Incentive Plan (the "2014 Plan") was adopted to provide a means by which officers, non-employee directors, and employees of and consultants to the Company and its affiliates could be given an opportunity to acquire an equity interest in the Company. All officers, non-employee directors, and employees of and consultants to the Company are eligible to participate in the 2014 Plan.

On October 31, 2014, after the closing of the Merger, our Board of Directors approved the 2014 Plan. The 2014 Plan reserved 3,200,000 shares for future grants. As of September 30, 2017, options (net of canceled or expired options) covering an aggregate of 1,130,000 shares of the Company's common stock had been granted under the 2014 Plan, and the Company had 1,130,000 options outstanding and 870,000 shares available for future grants under the 2014 Plan.

Options granted under the 2014 Plan expire no later than 10 years from the date of grant. Options granted under the 2014 Plan may be either incentive or non-qualified stock options. For incentive and non-qualified stock option grants, the option price shall be at least 100% of the fair value on the date of grants, as determined by the Company's Board of Directors. If at any time the Company grants an option, and the optionee directly or by attribution owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company, the option price shall be at least 110% of the fair value and shall not be exercisable more than five years after the date of grant.

Options granted under the 2014 Plan may be immediately exercisable if permitted in the specific grant approved by the Board of Directors and, if exercised early may be subject to repurchase provisions. The shares acquired generally vest over a period of five years from the date of grant. The Company granted options to purchase 1,130,000 shares net of cancellations and expirations through September 30, 2017 under the 2014 Plan.

[Table of Contents](#)

The following is a summary of activity under the 2014 Plan as of September 30, 2017:

	for Grant of Options & Shares	Options Outstanding		
		Number of Shares	Price per Share	Weighted Average Exercise Price
Balance at December 31, 2016	857,500	1,142,500	\$ 0.42-3.00	\$ 0.61
Options granted	-	-	\$ -	\$ -
Options exercised	-	-	\$ -	\$ -
Options cancelled	12,500	(12,500)	\$ 1.15	\$ 1.15
Balance at September 30, 2017	870,000	1,130,000	\$ 0.42-3.00	\$ 0.60
Vested and Exercisable at September 30, 2017		452,000	\$ 0.42-3.00	\$ 0.60

The weighted-average remaining contractual term of options vested and exercisable at September 30, 2017 was approximately 7.14 years.

The aggregate intrinsic value is the sum of the amounts by which the quoted market price of the Company's stock exceeded the exercise price of the stock options at September 30, 2017 for those stock options for which the quoted market price was in excess of the exercise price ("in-the-money options"). As of September 30, 2017, the aggregate intrinsic value of options outstanding was \$0. As of September 30, 2017, 452,000 options to purchase shares of common stock were exercisable.

Restricted Stock Awards

Restricted stock awards ("RSAs") are granted to our Board of Directors and members of senior management and are issued pursuant to the Company's 2014 Omnibus Incentive Plan. On October 20, 2015, a total of 1,200,000 RSAs were granted to members of the Company's senior management and Board of Directors with a fair market value of approximately \$900,000. These RSAs vest from one to three years from the grant date as services are rendered to the Company. For the three and nine months ended September 30, 2017 and 2016, the Company recorded \$65,625 and \$196,875 during each period, in stock-based compensation expense related to these awards, as discussed below. The total amount of unrecognized compensation cost related to non-vested RSAs was \$284,375 as of September 30, 2017.

Stock-Based Compensation Expense

The Company recognizes stock-based compensation expense based on the fair value of that portion of stock options that are ultimately expected to vest during the period. Stock-based compensation expense recognized in the consolidated statements of operations includes compensation expense for stock-based awards based on the estimated grant date fair value over the requisite service period. For the three and nine months ended September 30, 2017, the

Company recognized stock-based compensation expense of \$152,172 and \$456,510 (including compensation expense for RSAs discussed above) which was recorded as a general and administrative expense in the consolidated statements of operations. For the three and nine months ended September 30, 2016, stock-based compensation expense was \$181,608 and \$544,823, respectively.

The total amount of unrecognized compensation cost related to non-vested stock options was \$1,048,158 as of September 30, 2017. This amount will be recognized over a weighted average period of 2.15 years.

5. Provision for Conversion of Preferred Stock

Series B Preferred Stock Conversion Liability

As of August 20, 2015, in connection with the Series B Preferred Stock financing, the Company recorded a liability related to down-round protection provided to the stockholders in the event that the Company would affect another sale or issuance of common stock, stock options or convertible securities with a price per share below \$0.80. With the assistance of a third-party valuation specialist, the Company valued the conversion liability pursuant to the accounting guidance of ASC 820-10, *Fair Value Measurements*, as of the closing date of the financing. The Company also performed a review of the conversion liability in conjunction with ASC 815, *Derivatives and Hedging/Contracts in Entity's Own Equity*, and determined that the liability requires bifurcation and re-measurement to fair market value at the end of each reporting period. The derivative was valued at \$75,488 and was booked as a current liability as of September 30, 2015. The value of this embedded derivative was determined utilizing a with and without method by valuing the preferred stock with and without the down round protection.

[Table of Contents](#)

As of June 30, 2017, the Company engaged a third-party valuation specialist to re-measure the conversion liability to fair market value as of that date utilizing the same methodology previously performed. The derivative was classified as a current liability and was adjusted to \$25,051 as of June 30, 2017. The Company assessed the fair market value as of September 30, 2017 and determined that no additional adjustment was necessary. The change in fair market value was recorded as non-operating income of \$0 and \$88,532, respectively, for the three and nine months ended September 30, 2017. For the quarter ended September 30, 2016, the Company also conducted a third-party valuation utilizing the same methodology. The change in fair market value was recorded as non-operating expense of \$61,058 for the three months ended September 30, 2016 and \$82,872 as non-operating expense for the nine months ended September 30, 2016.

6. Series B Warrants

In conjunction with the Series B Preferred Stock financing, the Company issued 6,437,500 common stock warrants that are exercisable at a price of \$1.15 per share and expire five years from the issuance date. The warrants were initially valued at \$2,935,800 utilizing the Black-Scholes pricing model. The warrants are exercisable in cash or through a cashless exercise provision. The Series B warrants also have a "down-round" protection feature provided to the investors if the Company subsequently issues or sells any shares of common stock, stock options, or convertible securities at a price less than the exercise price of \$1.15 per each warrant. The exercise price is automatically adjusted down to the price of the instrument being issued. In October 2016, as a result of the Series C Preferred Stock financing, the exercise price was adjusted to \$0.40 and in December, 2016, as a result of the Series D Preferred Stock financing, the exercise price was adjusted to \$0.25. The Company reviewed the classification of the warrants as liabilities or equity under the guidance of ASC 480-10, *Distinguishing Liabilities from Equity*, and concluded that the Series B warrants should be classified as a liability. The Company then applied the fair value allocation methodology for allocating the proceeds of \$5.0 million received from the Series B financing between the

conversion liability and the warrants with the residual amount being allocated to the preferred stock. The Company also performed the same valuation as of September 30, 2017 utilizing the Black-Scholes pricing model and the following assumptions:

	Nine Months Ended September 30,	
	2017	2016
Dividend yield	0.00%	0.00%
Volatility factor	70.00%	70.00%
Risk-free interest rate	1.58%	1.11-1.29%
Expected term (years)	3.15	4.14-4.15
Weighted-average fair value of warrants	\$ 0.17	\$ 0.13

This resulted in a warrant value of \$791,813 as of September 30, 2017. The change in fair market value at the re-measurement date was recorded as non-operating income totaling \$281,497 and \$320,495 for the three and nine months ended September 30, 2017, respectively. The Company performed the same valuation as of September 30, 2016, utilizing the same methodology. This resulted in a warrant value of \$869,990 as of September 30, 2016. The change in fair market value at the re-measurement date was recorded as non-operating expense totaling \$27,665 for the three months ended September 30, 2016 and non-operating income totaling \$1,584,969 for the nine months ended September 30, 2016.

7. Income Taxes

Under the FASB's accounting guidance related to income tax positions, among other things, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a fifty (50) % likelihood of being sustained. Additionally, the guidance provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

[Table of Contents](#)

The Company records a valuation allowance against deferred tax assets to the extent that it is more likely than not that some portion, or all of, the deferred tax assets will not be realized. Due to the substantial doubt related to the Company's ability to utilize its deferred tax assets, a valuation allowance for the full amount of the deferred tax assets has been established at September 30, 2017. As a result of this valuation allowance there are no income tax benefits reflected in the accompanying consolidated statement of operations to offset pre-tax losses.

The Company has no uncertain tax positions as of September 30, 2017.

8. Subsequent Events

Pending Series E Preferred Stock Financing and Filing for Arbitration

On May 3, 2017, the Company entered into a securities purchase agreement with a purchaser to sell 1,000,000 shares of a new Series E Preferred Stock, par value \$0.001 per share, at a purchase price of \$20.00 for each preferred share for aggregate gross proceeds of \$20,000,000. The securities purchase agreement provides for no conditions precedent to the close and that closing is not to occur later than July 10, 2017. The purchaser did not provide funding to close the transaction on July 10, 2017 as required under the securities purchase agreement and requested an extension of the closing date. In connection with the signing of the securities purchase agreement, an affiliate of the purchaser entered into a financial guarantee to the benefit of the Company that provided for payment of the purchase price in full within 90 days of exercise. The Company exercised this guarantee on July 12, 2017. The guarantor has failed to pay the \$20,000,000 within 90 days of notice of the purchaser's default, as required by the terms of the guaranty.

On November 8, 2017, the Company filed a petition commencing arbitration against the purchaser and guarantor as well as other related individuals. In the petition, the Company asserts, among other things, breach of contract against the purchaser for its failure to close its purchase of Series E Preferred Stock as required by the securities purchase agreement. The Company also asserts a breach of contract claim against the guarantor for its failure to honor its guarantee of the transaction. The petition was filed with Judicial Arbitration and Mediation Services, Inc., ENDISPUTE in Orange County, California, as required by the securities purchase agreement. The Company has engaged its legal counsel in the matter on a contingent-fee basis and intends to pursue

damages and remedies in connections with these agreements.

Series F Preferred Stock Financing

On November 1, 2017, the Company entered into a Securities Purchase Agreement to sell 2,000 shares of Series F Convertible Preferred Stock to certain accredited investors at a purchase price of \$1,000 for each Preferred Share for aggregate gross proceeds of \$2,000,000. The Company consummated the issuance and sale of the Preferred Shares on the same day. The Series F Preferred Shares are convertible into shares of the Company's common stock at a conversion price of \$0.15 per share and provide for anti-dilution protection, rights upon various transactions, certain redemption and liquidation preferences and adjustments for any dividends. The Company has agreed to register the underlying shares of Company common stock and as a result of the issuance of the Series F Preferred Shares, the conversion price of outstanding Series B and Series C Preferred Stock was reset to \$0.15. The Company intends to use the proceeds of the financing for general corporate purposes, including, without limitation, to pay down past due obligations and other working capital items.

[Table of Contents](#)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements for the three and nine months ended September 30, 2017 and 2016 (unaudited) and the year ended December 31, 2016 together with notes thereto. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited, to those set forth under "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q.

Unless otherwise provided in this Quarterly Report, references to "we," "us," "our" and "Nemus" in this discussion and analysis refer to Nemus Bioscience, Inc., a Nevada corporation formerly known as Load Guard Logistics, Inc. ("LGL"), together with its wholly-owned subsidiary, Nemus, a California corporation ("Nemus"). Nemus became the wholly owned subsidiary of Nemus Bioscience, Inc. through the closing of a reverse merger transaction (the "Merger") pursuant to which a wholly owned subsidiary of LGL formed solely for the purpose of the Merger merged with and into Nemus

and LGL changed its name to Nemus Bioscience, Inc.

The Merger has been accounted for as a reverse merger and recapitalization, with Nemus as the acquirer and LGL as the acquired company for financial reporting purposes. As a result, the assets and liabilities and the operations that will be reflected in the historical financial statements prior to the Merger will be those of Nemus and will be recorded at the historical cost basis of Nemus, and the consolidated financial statements after completion of the Merger will include the assets and liabilities of LGL and Nemus, the historical operations of Nemus and the operations of the combined enterprise of LGL and Nemus from and after the closing date of the Merger.

Overview

We are a biopharmaceutical company focused on the discovery, development, and the commercialization of cannabis-based therapeutics, or cannabinoids, through our partnership with the University of Mississippi, or UM. UM has held the only contract to cultivate cannabis for research purposes on behalf of the Federal Government since 1968, and it has significant expertise in cannabis cultivation and the extraction, separation, process and manufacture of cannabis extracts. We are currently UM's sole partner for the development and commercialization of drugs derived from cannabis extracts, or cannabinoids, and the realization of this partnership will depend on the successful navigation of the complex regulatory framework for the cultivation and handling of cannabis in the United States.

Recent Events and Significant Contracts

UM 5050 pro-drug agreements:

On September 29, 2014, the Company executed three license agreements with UM pursuant to which UM granted us exclusive, perpetual, worldwide licenses, including the right to sublicense, to intellectual property related to UM 5050, a pro-drug formulation of tetrahydrocannabinol, or THC for products administered through each of ocular, oral or rectal delivery. The license agreement for the field of oral delivery also includes rights to UM 1250, a bio-adhesive hot melt extruded film for topical and mucosal adhesion application and drug delivery. The license agreements contain certain milestone and royalty payments, as defined therein. There is an annual fee of \$25,000 per license agreement, payable on the anniversary of each effective date. The aggregate milestone payments under the license agreements, if the milestones are achieved, is \$2.1 million. These licenses also require the Company to reimburse UM for patent costs incurred related to these products under license. The agreements will terminate upon expiration of the patents, breach or default of the license agreements, or upon 60 days' written notice by the Company to UM.

On October 15, 2014, we signed a renewable option agreement for the rights to explore other routes of delivery of UM 5050 not yet agreed upon and/or in combination with other cannabinoids or other compatible compounds. There was a one-time up-front option payment of \$10,000 for a six-month option period that has subsequently been renewed under the same financial terms and conditions. The most recent renewal occurred for the period from June 14, 2017 to December 14, 2017.

[Table of Contents](#)

UM 8930 analogue agreements:

On December 14, 2015, the Company executed two license agreements with UM pursuant to which UM granted us exclusive, perpetual, worldwide licenses, including the right to sublicense, to intellectual property related to UM 8930, an analogue formulation of cannabidiol ("CBD") for products administered through each of ocular or rectal delivery. The license agreements contain certain milestone and royalty payments, as defined therein. There is an annual fee of \$25,000 per license agreement, payable on the anniversary of each effective date. The aggregate milestone payments under the license agreements, if the milestones are achieved, is \$1.4 million. These licenses also require the Company to reimburse UM for patent costs incurred related to these products under license. These license agreements will terminate upon expiration of the patents, breach or default of the license agreements, or upon 60 days' written notice by the Company to UM.

On December 14, 2015, we signed a renewable option agreement for the rights to explore other routes of delivery of UM8930 not yet agreed upon and/or in combination with other cannabinoids or other compatible compounds. There was a one-time up-front option payment of \$10,000 for a six-month option period that has subsequently been renewed under the same financial terms and conditions. The most recent renewal occurred for the period from June 14, 2017 to December 14, 2017.

UM 5070 license agreement:

On January 10, 2017, the Company entered into a license agreement with UM pursuant to which UM granted the Company an exclusive, perpetual license, including the right to sublicense, under intellectual property related to UM 5070, a platform of cannabinoid-based molecules to research, develop and commercialize products for the treatment of infectious diseases. The license agreement culminates roughly one year of screening and target molecule identification studies especially focused on therapy-resistant infectious organisms like methicillin-resistant *Staphylococcus aureus* (MRSA). The license agreement contains certain milestone and royalty payments, as defined therein. There was a one-time upfront payment of \$65,000 paid in four equal monthly installments that started on February 1, 2017. There is an annual fee of \$25,000 per license agreement, payable on the anniversary of each effective date. The aggregate milestone payment under the license agreements, if the milestones are achieved, is \$0.7 million. These licenses also require the Company to reimburse UM for patent costs incurred related to these products under license. These license agreements will terminate upon expiration of the patents, breach or default of the license agreements, or upon 60 days' written notice by the Company to UM.

Critical Accounting Policy and Estimates

Our Management's Discussion and Analysis of Financial Condition and Results of Operations section discusses our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements 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. On an on-going basis, management evaluates its estimates and judgments, including those related to accrued expenses, financing operations, and contingencies and litigation. Management bases its estimates and

judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The most significant accounting estimates inherent in the preparation of our financial statements include estimates as to the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources.

During the three and nine months ended September 30, 2017, there were no significant changes to the items that were disclosed as our critical accounting policies and estimates in Note 1 to our financial statements for the year ended December 31, 2016 contained in our Form 10-K as filed with the SEC on March 10, 2017.

[Table of Contents](#)

Results of Operations

For the three months ended September 30, 2017 and 2016

Revenues. To date, we have not generated any revenues, and do not expect to generate any revenue from the sale of products in the near future.

Operating expenses. For the three months ended September 30, 2017, our total operating expenses were \$761,630 as compared to \$856,148 for the three months ended September 30, 2016. The decrease in operating expenses was due to the items noted below:

Research and development. Research and development expenses for the three months ended September 30, 2017 were \$88,550 which consisted of license and option renewal fees for UM 5050 along with patent reimbursement fees. There were no contract research and development expenses due to the limited cash balances available to the Company.

Research and development expenses for the three months ended September 30, 2016, were \$80,525 which primarily consisted of license and option renewal fees for UM 5050.

General and administrative. General and administrative expenses for the three months ended September 30, 2017 were \$673,080 which primarily consisted of salaries, stock compensation expense, consulting fees and professional fees related to the company's capital raising efforts and regulatory filings. By comparison, general and administrative expenses for the three months ended September 30, 2016 were \$775,623 which primarily consisted of the same components. Management reduced general and administrative expenses in the areas of investor relations, travel, rent, and office-related expenses resulting in the lower level of expense for 2017. In addition, given the minimal cash available, a significant portion of this expense remained accrued yet unpaid at quarter-end.

Other income and expenses. For the three months ended September 30, 2017, the Company had non-operating income of \$281,497 which represented a change in the fair value of the Series B warrant liability; the decrease in the warrant value was primarily attributable to the change in the fair value of the company's common stock.

For the three months ended September 30, 2016, the Company had non-operating expense of \$88,723 which represented a change in the fair value of the Series B warrant liability of \$27,665 and a change in the associated conversion right of \$61,058. The increase in the warrant liability was determined by a third party independent valuation conducted as of September 30, 2016 and was primarily attributable to the change in the fair value of the company's common stock.

Net (income) loss. For the three months ended September 30, 2017, we had a net loss of \$480,133 as compared to a net loss of \$945,271 for the three months ended September 30, 2016. We expect to incur net losses for the foreseeable future.

For the nine months ended September 30, 2017 and 2016

Revenues. To date, we have not generated any revenues, and do not expect to generate any revenue from the sale of products in the near future.

Operating expenses. For the nine months ended September 30, 2017, our total operating expenses were \$2,872,710 as compared to \$3,558,522 for the nine months ended September 30, 2016. The decrease in operating expenses was due to the items noted below:

Research and development. Research and development expenses for the nine months ended September 30, 2017 were \$241,302 which consisted of license fees for UM 5070, annual renewal fees and option fees, and contract research and development fees with the university. The decline in research and development expense from the prior year was attributable to the company's limited cash balance and delays associated with the Series E Preferred Stock Financing.

[Table of Contents](#)

Research and development expenses for the nine months ended September 30, 2016, were \$675,840 which consisted of contract research and development fees incurred by UM for the CIPN research project, process development fees incurred by the Company's contract manufacturer and consulting and professional services fees.

General and administrative. General and administrative expenses for the nine months ended September 30, 2017 were \$2,631,408 which primarily consisted of salaries, stock compensation expense, consulting fees and professional fees related to the company's capital raising efforts and regulatory filings. Given the minimal cash available, a significant portion of this expense remained accrued yet unpaid at quarter-end.

By comparison, general and administrative expenses for the nine months ended September 30, 2016 were \$2,882,682 which primarily consisted of the same components.

Other income and expenses. For the nine months ended September 30, 2017, the Company had non-operating income of \$409,027 which consisted of the following components:

- \$320,495 represented a change in the fair value of the Series B warrant liability; the decrease in the warrant value was primarily attributable to the change in the fair value of the company's common stock.
- \$88,532 represented a change in the fair value of the conversion right related to the Series B preferred stock issuance.

For the nine months ended September 30, 2016, the Company had non-operating income of \$1,502,097 which represented a change in the fair value of the Series B warrant liability of \$1,584,969 and a change in the associated conversion right of \$82,872 of expense.

Net Loss. For the nine months ended September 30, 2017, we had a net loss of \$2,466,114 as compared to a net loss of \$2,057,625 for the nine months ended September 30, 2016. We expect to incur net losses for the foreseeable future.

Liquidity and Capital Resources

We had cash and cash equivalents of \$41,978 as of September 30, 2017, as compared to \$64,820 as of December 31, 2016. This decrease is primarily attributable to the proceeds of \$1,200,000 from the Series D financing offset by the funding of operating expenses as previously discussed. We anticipate that we will continue to incur net losses into the foreseeable future in order to advance and develop a number of potential drug candidates into preclinical development activities and support our corporate infrastructure which includes the costs associated with being a public company. Without additional funding, management believes that we will not have sufficient funds to meet our obligations beyond one year after the date the consolidated financial statements are issued. These conditions give rise to substantial doubt as to our ability to continue as a going concern.

We have been, and intend to continue, working toward identifying and obtaining new sources of financing. No assurances can be given that we will be successful in obtaining additional financing in the future. Any future financing that we may obtain may cause significant dilution to existing stockholders. Any debt financing or other financing of securities senior to common stock that we are able to obtain will likely include financial and other covenants that will restrict our flexibility. Any failure to comply with these covenants would have a negative impact on our business, prospects, financial

condition, results of operations and cash flows.

If adequate funds are not available, we may be required to delay, scale back or eliminate portions of our operations, cease operations or obtain funds through arrangements with strategic partners or others that may require us to relinquish rights to certain of our assets. Accordingly, the inability to obtain such financing could result in a significant loss of ownership and/or control of our assets and could also adversely affect our ability to fund our continued operations and our expansion efforts.

During the next twelve months, we expect to incur significant research and development expenses with respect to our products. The majority of our research and development activity is focused on development of potential drug candidates and preclinical trials.

[Table of Contents](#)

We also expect to incur significant legal and accounting costs in connection with being a public company. We expect those fees will be significant and will continue to impact our liquidity. Those fees will be higher as our business volume and activity increases.

We also anticipate that we will need to hire additional employees or independent contractors as the Company prepares to enter clinical studies.

Going Concern

Our independent registered public accounting firm has issued a report on our audited financial statements for the fiscal year ended December 31, 2016 that included an explanatory paragraph referring to our recurring operating losses and expressing substantial doubt in our ability to continue as a

going concern. Our unaudited consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and settlement of liabilities in the normal course of business. Our ability to continue as a going concern is dependent upon our ability to generate profitable operations in the future and/ or to obtain the necessary financing to meet our obligations and repay our liabilities arising from normal business operations when they become due. The outcome of these matters cannot be predicted with any certainty at this time and raise substantial doubt that we will be able to continue as a going concern. Our unaudited consolidated financial statements do not include any adjustments to the amount and classification of assets and liabilities that may be necessary should we be unable to continue as a going concern.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures. We maintain controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management including our principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, management recognizes that any control and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We conducted an evaluation, under the supervision and with the participation of our principal executive and financial officers, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2017. Based upon their evaluation and subject to the foregoing, the principal executive and financial officers have concluded that, as of the end of the period covered by this report, the disclosure controls and procedures were effective at a reasonable assurance level.

Changes in internal controls. Management determined there were no changes in our internal control over financial reporting that occurred during the fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

[Table of Contents](#)

PART II - OTHER INFORMATION

Item 1. Legal Proceeding

On November 8, 2017, the Company filed a petition commencing arbitration as described in Note 8. Subsequent Events –*Pending Series E Preferred Stock Financing and Filing for Arbitration.*

Item 1A. Risk Factors.

Investing in our common stock involves a high degree of risk. Our Annual Report on Form 10-K for the year ended December 31, 2016 includes a detailed discussion of our risk factors under the heading "Part I, Item 1A-Risk Factors." There are no changes from the risk factors previously disclosed in our Annual Report on Form 10-K. You should carefully consider the risk factors discussed in our Annual Report on Form 10-K as well as the other information in this report before deciding whether to invest in shares of our common stock. The occurrence of any of the risks discussed in the Annual Report on Form 10-K could harm our business, financial condition, results of operations or growth prospects. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

[Table of Contents](#)

Item 6. Exhibits.

<u>31.1</u>	<u>Certification of Principal Executive Officer, pursuant to Rule 13a-14 and 15d-14 of the Securities Exchange Act of 1934</u>
<u>31.2</u>	<u>Certification of Principal Financial Officer, pursuant to Rule 13a-14 and 15d-14 of the Securities Exchange Act of 1934</u>
<u>32.1+</u>	<u>Certification of Principal Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
<u>32.2+</u>	<u>Certification of Principal Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
101.ins	Instance Document
101.sch	XBRL Taxonomy Schema Document
101.cal	XBRL Taxonomy Calculation Linkbase Document
101.def	XBRL Taxonomy Definition Linkbase Document
101.lab	XBRL Taxonomy Label Linkbase Document
101.pre	XBRL Taxonomy Presentation Linkbase Document

+ Furnished herewith and not "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

[Table of Contents](#)

SIGNATURES

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

**Nemus Bioscience, Inc.,
a Nevada corporation**

November 14, 2017

By: /s/ Brian Murphy
Brian Murphy
Its: Chief Executive Officer
(Principal Executive Officer)

November 14, 2017

By: /s/ Elizabeth Berecz
Elizabeth Berecz
Its: Chief Financial Officer
(Principal Financial and Accounting Officer)

**Certification of Principal Executive Officer,
Required By Rule 13a-14(A) of the Securities Exchange Act of 1934, As Amended,
As Adopted Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002**

I, Brian Murphy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Nemus Bioscience, Inc. for the quarter ended September 30, 2017;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2017

/s/ Brian Murphy

Brian Murphy
Chief Executive Officer

**Certification of Principal Financial Officer,
Required By Rule 13a-14(A) of the Securities Exchange Act of 1934, As Amended,
As Adopted Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002**

I, Elizabeth Berecz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Nemus Bioscience, Inc. for the quarter ended September 30, 2017;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2017

/s/ Elizabeth Berecz
Elizabeth Berecz
Chief Financial Officer

**Certification of Principal Executive Officer, pursuant to 18 U.S.C. Section 1350,
as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Nemus Bioscience, Inc. a Nevada corporation (the "Company") on Form 10-Q for the quarter ended September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Brian Murphy, Chief Executive Officer of the Company, certifies to the best of his knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Brian Murphy

Brian Murphy
Chief Executive Officer
November 14, 2017

**Certification of Principal Financial Officer, pursuant to 18 U.S.C. Section 1350,
as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Nemus Bioscience, Inc. a Nevada corporation (the "Company") on Form 10-Q for the quarter ended September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Elizabeth Berez, Chief Financial Officer of the Company, certifies to the best of her knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Elizabeth Berez

Elizabeth Berez
Chief Financial Officer
November 14, 2017