

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

FORM 10-Q

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

For the quarterly period ended March 31, 2016

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: 001-33675

**VENAXIS, INC.**

(Exact name of registrant as specified in its charter)

**Colorado**

(State or other jurisdiction of  
incorporation or organization)

**84-1553387**

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

**1585 South Perry Street, Castle Rock, Colorado 80104**

(Address of principal executive offices) (Zip Code)

**(303) 794-2000**

(Registrant's telephone number, including area code)

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

The number of shares of no par value common stock outstanding as of May 11, 2016 was 3,876,960.

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**VENAXIS, INC.**

PART I - Financial Information

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q, including in Management's Discussion and Analysis of Financial Condition and Results of Operations, are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created thereby. These statements relate to future events or the Company's future financial performance and involve known and unknown risks, uncertainties and other factors that may cause the actual results, levels of activity, performance or achievements of the Company or its industry to be materially different from those expressed or implied by any forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "would," "should," "expect," "plan," "anticipate," "intend," "believe," "estimate," "predict," "potential" or other comparable terminology. Please see the "Risk Factors" in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2015 for a discussion of certain important factors that relate to forward-looking statements contained in this report. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. Unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I — FINANCIAL INFORMATION

Item I. Condensed Financial Statements

Venaxis, Inc.  
Balance Sheets

	March 31, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,841,065	\$ 2,012,283
Short-term investments (Note 1)	12,759,109	14,147,991
Prepaid expenses and other current assets (Note 1)	<u>241,817</u>	<u>251,778</u>
Total current assets	16,841,991	16,412,052
Property and equipment, net (Note 2)	896	1,954,496
Long-term investments (Note 1)	250,000	972,000
Other long term assets, net (Notes 1 and 3)	<u>1,381,566</u>	<u>1,523,649</u>
Total assets	<u>\$ 18,474,453</u>	<u>\$ 20,862,197</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 321,054	\$ 701,064
Accrued compensation	12,549	449,873
Accrued expenses	171,129	241,882
Notes and other obligations, current portion (Note 4)	57,152	301,250
Deferred revenue, current portion (Note 7)	<u>96,698</u>	<u>96,698</u>
Total current liabilities	658,582	1,790,767
Notes and other obligations, less current portion (Note 4)	-	1,838,779
Deferred revenue, less current portion (Note 7)	<u>1,137,840</u>	<u>1,162,015</u>
Total liabilities	<u>1,796,422</u>	<u>4,791,561</u>
Commitments and contingencies (Notes 7 and 9)		
Stockholders' equity (Notes 5 and 6):		
Common stock, no par value, 60,000,000 shares authorized;		
3,876,960 shares issued and outstanding	121,700,959	121,653,075
Accumulated deficit	<u>(105,022,928)</u>	<u>(105,582,439)</u>
Total stockholders' equity	<u>16,678,031</u>	<u>16,070,636</u>
Total liabilities and stockholders' equity	<u>\$ 18,474,453</u>	<u>\$ 20,862,197</u>

See Accompanying Notes to Unaudited Condensed Financial Statements

**Venaxis, Inc.**  
**Statements of Operations**  
**Three Months Ended March 31**  
**(Unaudited)**

	<u>2016</u>	<u>2015</u>
Sales (Note 1)	\$ -	\$ 11,288
Cost of sales	-	4,007
Gross profit	-	7,281
Other revenue – fee (Note 7)	24,175	24,175
Operating expenses:		
Selling, general and administrative	1,030,126	1,535,851
Research and development	372,586	707,742
Total operating expenses	1,402,712	2,243,593
Operating loss	(1,378,537)	(2,212,137)
Other (expense) income:		
Gain on sale of property and equipment (Note 2)	1,919,361	-
Interest expense	(25,598)	(25,064)
Investment income	44,285	50,828
Total other income	1,938,048	25,764
Net income (loss)	<u>\$ 559,511</u>	<u>\$ (2,186,373)</u>
Basic and diluted net loss per share (Note 1)	<u>\$ 0.14</u>	<u>\$ (0.56)</u>
Basic and diluted weighted average number of shares outstanding (Note 1)	<u>3,876,960</u>	<u>3,876,960</u>

See Accompanying Notes to Unaudited Condensed Financial Statements

**Venaxis, Inc.**  
**Statements of Cash Flows**  
**Three Months Ended March 31**  
**(Unaudited)**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Net income (loss)	\$ 559,511	\$ (2,186,373)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation for services	47,884	433,402
Depreciation and amortization	19,401	64,021
Amortization of license fees	(24,175)	(24,175)
Other non-cash charges	133,899	-
Gain on sale of property and equipment	(1,919,361)	-
Change in:		
Accounts receivable	-	7,077
Prepaid expenses and other current assets	69,155	89,690
Accounts payable	(380,010)	(34,707)
Accrued compensation	(437,324)	(565,862)
Accrued expenses	<u>28,058</u>	<u>(69,744)</u>
Net cash (used in) operating activities	<u>(1,902,962)</u>	<u>(2,286,671)</u>
Cash flows from investing activities:		
Purchases of short-term investments	(7,537,862)	(11,305,556)
Sales of short-term investments	9,648,744	14,402,745
Proceeds from sale of property and equipment	1,748,571	-
Purchases of patent and trademark application costs	<u>(10,778)</u>	<u>(14,679)</u>
Net cash provided by investing activities	<u>3,848,675</u>	<u>3,082,510</u>
Cash flows from financing activities:		
Repayment of notes payable and other obligations	<u>(116,931)</u>	<u>(133,715)</u>
Net cash (used in) financing activities	<u>(116,931)</u>	<u>(133,715)</u>
Net change in cash and cash equivalents	1,828,782	662,124
Cash and cash equivalents at beginning of period	<u>2,012,283</u>	<u>3,539,911</u>
Cash and cash equivalents at end of period	<u>\$ 3,841,065</u>	<u>\$ 4,202,035</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	<u>\$ 31,140</u>	<u>\$ 25,286</u>
Supplemental disclosure of investing information:		
Liability payoffs upon property sale	<u>\$ 2,064,758</u>	<u>\$ -</u>

See Accompanying Notes to Unaudited Condensed Financial Statements

**Venaxis, Inc.**  
**Notes to Condensed Financial Statements**  
**(Unaudited)**

**INTERIM FINANCIAL STATEMENTS**

The accompanying financial statements of Venaxis, Inc. (the “Company,” “we,” or “Venaxis”) have been prepared in accordance with the instructions to quarterly reports on Form 10-Q. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in financial position at March 31, 2016 and for all periods presented have been made. Certain information and footnote data necessary for fair presentation of financial position and results of operations in conformity with accounting principles generally accepted in the United States of America have been condensed or omitted. It is therefore suggested that these financial statements be read in conjunction with the summary of significant accounting policies and notes to financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. The results of operations for the period ended March 31, 2016 are not necessarily an indication of operating results for the full year.

**Management’s plans and basis of presentation:**

The Company has experienced recurring losses and negative cash flows from operations. At March 31, 2016, the Company had approximate balances of cash and liquid investments of \$16,600,000, working capital of \$16,183,000, total stockholders’ equity of \$16,678,000 and an accumulated deficit of \$105,023,000. To date, the Company has in large part relied on equity financing to fund its operations. The Company expects to continue to incur losses from operations for the near-term and these losses could be significant as professional and other associated expenses in connection with possible strategic considerations, evaluations and transactions, appendicitis portfolio related expenses, public company and administrative related expenses are incurred. The Company believes that its current working capital position will be sufficient to meet its estimated cash needs into early 2017. The Company is closely monitoring its cash balances, cash needs and expense levels.

As of January 26, 2016, Venaxis publically disclosed that it had entered into a series of agreements, including a Master Agreement, for a combination transaction (the “Strand transaction”) with Strand Life Sciences Private Limited and its shareholders (“Strand”). Strand is privately-held, and operates clinical reference labs in the US and in India, providing testing and lab services in India and other world-wide markets. Strand has commercialized a next generation sequencing (NGS) based, targeted, multi-gene, pan-cancer diagnostic panel in select international markets and has engaged in initial commercialization activities in the United States.

On March 11, 2016, Venaxis and Strand entered into a Mutual Termination Agreement to terminate the series of agreements. Pursuant to the Mutual Termination Agreement, each of the parties was relieved of any obligations or responsibilities under the Master Agreement and other transaction agreements. Each party remains responsible for its respective transaction-related costs.

Following the recent termination of the Strand transaction, the Company has begun evaluating potential strategic alternatives. The Company expects, in the near term, to establish the primary criteria it will consider as it evaluates its next steps and strategic path forward with the goal of maximizing value for its shareholders. As a result of the current market trends and uncertainties, and the impact on many companies, management believes that there may currently be attractive opportunities available to the Company.

Management’s strategic assessment includes the following potential options:

- exploring other possible strategic options available to the Company following termination of the Strand transaction;
- evaluating options to monetize, partner or license the Company's appendicitis product portfolio;
- continuing to explore prospective partnering or licensing opportunities with complementary opportunities and technologies;  
and
- continuing to implement cost control initiatives to conserve cash.

As part of the Company’s process to identify possible strategic partners, several targets were identified that the Company assessed as possibly having a business model that could be interested in discussions with Venaxis for possibly acquiring or licensing the appendicitis assets. Venaxis has made initial contact with several of these parties to gauge their interest level, which initially is more focused on the *APPY2* development assets. Management believes that the estimated potential market for an appendicitis test continues to be significant. If Venaxis is unable to locate a new strategic target, a partner or other third-party interested in advancing development and commercial activities of the Venaxis appendicitis portfolio, the capitalized costs on the Company’s balance sheet, totaling approximately \$374,000, as of March 31, 2016 for the acute appendicitis patents may be deemed impaired.

**Note 1. Significant accounting policies:****Cash, cash equivalents and investments:**

The Company considers all highly liquid investments with an original maturity of three months or less at the date of acquisition to be cash equivalents. From time to time, the Company's cash account balances exceed the balances as covered by the Federal Deposit Insurance System. The Company has never suffered a loss due to such excess balances.

The Company invests excess cash from time to time in highly-liquid debt and equity investments of highly-rated entities, which are classified as trading securities. Historically, the purpose of the investments has been to fund research and development, product development, FDA clearance-related activities and general corporate purposes. Such amounts are recorded at market values using Level 1 inputs in determining fair value and are generally classified as current, as the Company does not intend to hold the investments beyond twelve months. Investment securities classified as trading are those securities that are bought and held principally for the purpose of selling them in the near term, with the objective of preserving principal and generating profits. These securities are reported at fair value with unrealized gains and losses reported as an element of other (expense) income in current period earnings. The Company's Board of Directors has approved an investment policy covering the investment parameters to be followed with the primary goals being the safety of principal amounts and maintaining liquidity. The policy provides for minimum investment rating requirements as well as limitations on investment duration and concentrations. Based upon market conditions, the investment guidelines have been tightened to increase the minimum acceptable investment ratings required for investments and shorten the maximum investment term. As of March 31, 2016, approximately 11% of the investment portfolio was in cash and cash equivalents, which is presented as such on the accompanying balance sheet, and the remaining funds were invested in marketable securities with none individually representing a material amount of the portfolio. Investments with a scheduled maturity beyond one year are classified as long-term investments on the balance sheet. To date, the Company's cumulative realized market loss from the investments has not been significant. For the three months ended March 31, 2016 and 2015, there was approximately \$5,900 and \$8,400, respectively, in management fee expenses.

**Fair value of financial instruments:**

The Company accounts for financial instruments under Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic ("ASC") 820, *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

Level 1— quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 — observable inputs other than Level 1, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model-derived prices whose inputs are observable or whose significant value drivers are observable; and

Level 3 — assets and liabilities whose significant value drivers are unobservable.

Observable inputs are based on market data obtained from independent sources, while unobservable inputs are based on the Company's market assumptions. Unobservable inputs require significant management judgment or estimation. In some cases, the inputs used to measure an asset or liability may fall into different levels of the fair value hierarchy. In those instances, the fair value measurement is required to be classified using the lowest level of input that is significant to the fair value measurement. Such determination requires significant management judgment. There were no financial assets or liabilities measured at fair value, with the exception of cash, cash equivalents and short-term investments as of March 31, 2016 and December 31, 2015.

The carrying amounts of the Company's financial instruments (other than cash, cash equivalents and short-term investments as discussed above) approximate fair value because of their variable interest rates and / or short maturities combined with the recent historical interest rate levels.

**Revenue recognition and accounts receivable:**

We recognize sales of goods under the provisions of ASC 605 and the U.S. Securities and Exchange Commission (“SEC”) Staff Accounting Bulletin (“SAB”) 104, *Revenue Recognition*. Future revenue is expected to be generated primarily from the sale of products. Product revenue primarily consists of sales of instrumentation and consumables.

Revenue is recognized when the following four basic criteria have been met: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred and risk of loss has passed; (iii) the seller’s price to the buyer is fixed or determinable; and (iv) collectability is reasonably assured. In international markets, the Company sells its products to distributors or re-sellers, who subsequently resell the products to hospitals. The Company has an agreement with the distributor which provides that title and risk of loss pass to the distributor upon shipment of the products, FOB to the distributor. Revenue is recognized upon shipment of products to the distributor as the products are shipped based on FOB shipping point terms.

Revenues are recorded less a reserve for estimated product returns and allowances which to date has not been significant. Determination of the reserve for estimated product returns and allowances is based on management’s analyses and judgments regarding certain conditions. Should future changes in conditions prove management’s conclusions and judgments on previous analyses to be incorrect, revenue recognized for any reporting period could be adversely affected.

The Company extends credit to customers generally without requiring collateral. As of March 31, 2016, there were no accounts receivable and no sales. At December 31, 2015, the Company did not have any accounts receivable. During the three months ended March 31, 2015, three European-based customers accounted for the total net sales, each representing 12%, 44% and 44%, respectively.

The Company monitors its exposure for credit losses and maintains allowances for anticipated losses. The Company records an allowance for doubtful accounts when it is probable that the accounts receivable balance will not be collected. When estimating the allowance, the Company takes into consideration such factors as its day-to-day knowledge of the financial position of specific clients, the industry and size of its clients. A financial decline of any one of the Company’s large clients could have an adverse and material effect on the collectability of receivables and thus the adequacy of the allowance for doubtful accounts receivable. Increases in the allowance are recorded as charges to bad debt expense and are reflected in other operating expenses in the Company’s statements of operations. Write-offs of uncollectible accounts are charged against the allowance.

**Recently issued and adopted accounting pronouncements:**

The Company continually assesses any new accounting pronouncements to determine their applicability. When it is determined that a new accounting pronouncement affects the Company’s financial reporting, the Company undertakes a study to determine the consequences of the change to its financial statements and assures that there are proper controls in place to ascertain that the Company’s financial statements properly reflect the change.

In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09 “Revenue from Contracts from Customers,” which supersedes the revenue recognition requirements in “Revenue Recognition (Topic 605),” and requires entities to recognize revenue in a way that depicts the transfer of potential goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to the exchange for those goods or services. In July 2015, the FASB extended the effective date of ASU 2014-09 by one year, to now be effective for fiscal years, and interim periods beginning after December 15, 2017, and is to be applied retrospectively, with early adoption now permitted for fiscal years, and interim periods beginning after December 31, 2015. The Company does not believe the new standard will have a material impact on its operations and financial statements.

**Income (loss) per share:**

ASC 260, *Earnings Per Share*, requires dual presentation of basic and diluted earnings per share (“EPS”) with a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. Basic EPS excludes dilution. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.



Basic net earnings (loss) per share includes no dilution and is computed by dividing net earnings (loss) available to shareholders by the weighted average number of common shares outstanding for the period. Diluted net earnings (loss) per share reflect the potential dilution of securities that could share in the Company's earnings (loss). The outstanding options and warrants did not have a dilutive effect on earnings per share for the three months ended March 31, 2016 pursuant to the treasury stock method. The effect of the inclusion of the dilutive shares would have resulted in a decrease in loss per share for the three months ended March 31, 2015. Accordingly, the weighted average shares outstanding have not been adjusted for dilutive shares for either period presented. Outstanding stock options and warrants are not considered in the calculation, as the impact of the potential common shares (totaling approximately 757,000 shares and 779,000 shares for the three month periods ended March 31, 2016 and 2015, respectively) would be anti-dilutive.

Upon the completion of a special shareholders meeting on March 24, 2016, where such action was approved by shareholders, the Board of Directors authorized a reverse stock split of the Company's common stock at a ratio of one-for-eight, whereby each eight shares of common stock were combined into one share of common stock (the "Reverse Stock Split"). The Reverse Stock Split was implemented and effective on March 31, 2016. All historical references to shares and share amounts in this report have been retroactively revised to reflect the Reverse Stock Split. A reconciliation of basic and diluted weighted average number of shares outstanding adjusted for the Reverse Stock Split for the period ended March 31, 2016 was 30,990,029 shares on a pre-split basis and 3,876,960 shares on a post-split basis.

**Note 2. Property and equipment:**

Property and equipment consisted of the following:

	<b>March 31, 2016 (Unaudited)</b>	<b>December 31, 2015</b>
Land and improvements	\$ -	\$ 1,107,508
Building	-	2,589,231
Building improvements	-	253,526
Laboratory equipment	-	848,014
Office and computer equipment	66,104	318,254
	66,104	5,116,533
Less accumulated depreciation	65,208	3,162,037
	<u>\$ 896</u>	<u>\$ 1,954,496</u>

Depreciation expense totaled approximately \$400 and \$40,000 for the three month periods ended March 31, 2016 and 2015, respectively.

On February 25, 2016, the Company completed the sale of its corporate headquarters, land, building and certain fixtures and equipment to a third party at a purchase price of approximately \$4,000,000. The sale resulted in a gain of approximately \$1,900,000 and generated approximately \$1,700,000 in net cash after expenses and mortgage payoffs. The Company is leasing back space in the building under short term lease agreements that provide office and storage space required for its current level of operations.

**Note 3. Other long-term assets:**

Other long-term assets consisted of the following:

	<b>March 31, 2016 (Unaudited)</b>	<b>December 31, 2015</b>
Patents, trademarks and applications, net of accumulated amortization of \$534,692 and \$548,327, respectively	\$ 994,327	\$ 1,136,410
Goodwill	387,239	387,239
	<u>\$ 1,381,566</u>	<u>\$ 1,523,649</u>

The Company capitalizes legal costs and filing fees associated with obtaining patents on its new discoveries. Once the patents have been issued, the Company amortizes these costs over the shorter of the legal life of the patent or its estimated economic life using the straight-line method. Based upon the current status of the above intangible assets, the aggregate amortization expense is estimated to be approximately \$76,000 for each of the next five fiscal years. The Company tests intangible assets with finite lives for impairment upon significant changes in the Company's business environment. The testing resulted in net patent impairment charges of \$134,000 and zero during the three months ended March 31, 2016 and 2015 respectively. The impairment charges are related to the Company's ongoing analysis of which specific country patents in its portfolio are determined as potentially worth pursuing.

**Note 4. Notes and Other Obligations:**

Notes payable and other obligations consisted of the following:

	<b>March 31, 2016 (Unaudited)</b>	<b>December 31, 2015</b>
Mortgage notes	\$ -	\$ 1,997,701
Other short-term installment obligations	57,152	142,328
	57,152	2,140,029
Less current portion	57,152	301,250
	<u>\$ -</u>	<u>\$ 1,838,779</u>

**Mortgage notes:**

Prior to the February 2016 sale of the corporate headquarters, the Company had a permanent mortgage on its land and building that was refinanced in May 2013. The mortgage was held by a commercial bank and included a portion guaranteed by the U. S. Small Business Administration ("SBA"). The loan was collateralized by the real property and the SBA portion was also personally guaranteed by a former officer of the Company. The commercial bank loan terms included a payment schedule based on a fifteen year amortization, with a balloon maturity at five years. The commercial bank portion had an interest rate fixed at 3.95%, and the SBA portion bore interest at the rate of 5.86%. The commercial bank portion of the loan required total monthly payments of approximately \$11,700, which included approximately \$4,500 per month in interest. The SBA portion of the loan required total monthly payments of approximately \$9,000 through July 2023, which included approximately \$3,500 per month in interest and fees in 2016.

On February 25, 2016, the Company completed the sale of its corporate headquarters, land and building, and also paid off its mortgage obligations. See Note 2.

**Future maturities:**

The Company's total debt obligations require minimum annual principal payments of approximately \$57,000 for the remainder of 2016, with nothing due beyond that date.

## Note 5. Stockholders' equity:

Upon the completion of a special shareholders meeting on March 24, 2016, where such action was approved by shareholders, the Board of Directors authorized the Reverse Stock Split at a ratio of one-for-eight, whereby each eight shares of common stock were combined into one share of common stock. The Reverse Stock Split was implemented and effective on March 31, 2016. All historical references to shares and share amounts in this report have been retroactively revised to reflect the Reverse Stock Split. Following the Reverse Stock Split, the Company regained its compliance with the Nasdaq minimum bid price, allowing its common stock to continue to be listed on the Nasdaq Capital Market.

For the three months periods ended March 31, 2016 and 2015, the Company did not issue any common shares and no options or warrants were exercised during those same periods.

## Note 6. Stock options and warrants:

### Stock options:

The Company currently provides stock-based compensation to employees, directors and consultants, both under the Company's 2002 Stock Incentive Plan, as amended (the "Plan"), and non-qualified options and warrants issued outside of the Plan. During September 2015, the Company's shareholders approved amendments to the Plan to increase the number of shares reserved under the Plan from 459,141 to 709,141. The Company estimates the fair value of the share-based awards on the date of grant using the Black-Scholes option-pricing model (the "Black-Scholes model"). Using the Black-Scholes model, the value of the award that is ultimately expected to vest is recognized over the requisite service period in the statement of operations. Option forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company attributes compensation to expense using the straight-line single option method for all options granted.

The Company's determination of the estimated fair value of share-based payment awards on the date of grant is affected by the following variables and assumptions:

- The grant date exercise price – the closing market price of the Company's common stock on the date of the grant;
- Estimated option term – based on historical experience with existing option holders;
- Estimated dividend rates – based on historical and anticipated dividends over the life of the option;
- Term of the option – based on historical experience, grants have lives of approximately 3-5 years;
- Risk-free interest rates – with maturities that approximate the expected life of the options granted;
- Calculated stock price volatility – calculated over the expected life of the options granted, which is calculated based on the daily closing price of the Company's common stock over a period equal to the expected term of the option; and
- Option exercise behaviors – based on actual and projected employee stock option exercises and forfeitures.

The Company recognized total expenses for stock-based compensation during the three-month periods ended March 31, 2016 and 2015 of \$47,884 and \$433,402, respectively. These expenses are included in the accompanying statements of operations for the three-month periods ended March 31, in the following categories:

	<u>2016</u>	<u>2015</u>
Selling, general and administrative expenses	\$ 45,324	\$ 392,362
Research and development expenses	<u>2,560</u>	<u>41,040</u>
Total stock-based compensation	<u>\$ 47,884</u>	<u>\$ 433,402</u>

During the three months ended March 31, 2016 and 2015, respectively, no options were exercised.

### Stock incentive plan options:

The Company currently provides stock-based compensation to employees, directors and consultants under the Plan. The Company did not grant any stock-based compensation to employees, directors or consultants for the three months ended March 31, 2016. Stock-based compensation to employees, directors and consultants for the three months ended March 31, 2015 utilized assumptions in the estimation of fair value of stock-based compensation as follows: a dividend yield of 0%, an expected price volatility of 93%, a risk free interest rate of 1.39%, and an expected term of 5 years.

A summary of activity under the Plan for the three months ended March 31, 2016 is presented below:

	<b>Shares Underlying Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term (Years)</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at January 1, 2016	332,560	\$ 35.36		
Granted	-	-		
Exercised	-	-		
Forfeited	<u>(7,382)</u>	<u>20.98</u>		
Outstanding at March 31, 2016	<u>325,178</u>	<u>\$ 35.75</u>	7.5	<u>\$ -</u>
Exercisable at March 31, 2016	<u>305,265</u>	<u>\$ 37.10</u>	7.5	<u>\$ -</u>

The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the Company's closing stock price on March 31, 2016 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders, had all option holders been able to, and in fact had, exercised their options on March 31, 2016.

During the three months ended March 31, 2015, 43,000 options were issued to non-employee directors under the Plan, exercisable at an average of \$15.12 per share. The options expire ten years from the date of grant and vested over one year, based upon 25% on the date of grant, and 25% on each of April 1, 2015, July 1, 2015, and October 1, 2015.

During the three months ended March 31, 2015, 98,813 options were issued to officers and employees under the Plan, exercisable at an average of \$15.12 per share. The options expire ten years from the date of grant and vest over two years with 50% vesting upon six month anniversary of grant date and the remaining balance vesting over the following six quarters in arrears.

During the three months ended March 31, 2016, a total of 7,382 options that were granted under the Plan were forfeited, of which 3,762 were vested and 3,620 were unvested. The vested options were exercisable at an average of \$26.61 per share and the unvested options were exercisable at an average of \$15.13 per share. During the three months ended March 31, 2015, a total of 21,668 options that were granted under the Plan were forfeited, of which 1,876 were vested and 19,792 were unvested. The vested options were exercisable at an average of \$193.36 per share and the unvested options were exercisable at an average of \$16.48 per share.

The total fair value of stock options granted to employees, directors and consultants that vested and became exercisable during the three months ended March 31, 2016 and 2015, was approximately \$127,000 and \$234,000, respectively. Based upon the Company's experience, approximately 80% of the outstanding nonvested stock options, or approximately 16,000 options, are expected to vest in the future, under their terms.

A summary of the activity of nonvested options under the Plan to acquire common shares granted to employees, officers, directors and consultants during the three months ended March 31, 2016 is presented below:

Nonvested Shares	Nonvested Shares Underlying Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2016	33,336	\$ 15.54	\$ 11.41
Granted	-	-	-
Vested	(9,803)	16.67	12.92
Forfeited	(3,620)	15.13	10.75
Nonvested at March 31, 2016	<u>19,913</u>	<u>\$ 15.06</u>	<u>\$ 10.79</u>

At March 31, 2016, based upon employee, officer, director and consultant options granted under the Plan to that point, there was approximately \$128,000 of additional unrecognized compensation cost related to stock options that will be recorded over a weighted average future period of less than one year.

**Other common stock purchase options and warrants:**

As of March 31, 2016, in addition to the stock incentive plan options discussed above, the Company had outstanding 432,003 non-qualified options and warrants in connection with offering warrants and an officer's employment that were not issued under the Plan.

During the three month periods ended March 31, 2016 and 2015, respectively, no stock options were granted outside of the Plan. Operating expenses for the three months ended March 31, 2016 and 2015, did not include any value related to stock-based compensation of non-qualified options and warrants.

Following is a summary of outstanding options and warrants that were issued outside of the Plan for the three months ended March 31, 2016:

	Shares Underlying Options / Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2016	432,003	\$ 15.47		
Granted	-	-		
Exercised	-	-		
Forfeited	-	-		
Outstanding and exercisable at March 31, 2016	<u>432,003</u>	<u>\$ 15.47</u>	2.0	<u>\$ -</u>

During the three months ended March 31, 2016 and 2015, no warrants were exercised.

The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the Company's closing stock price on March 31, 2016 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders, had all option holders been able to, and in fact had, exercised their options on March 31, 2016.

The total fair value of stock options previously granted to a former officer that vested and became exercisable during the three months ended March 31, 2016 and 2015, was zero. At March 31, 2016, there was no unrecognized cost for non-qualified options that will be recorded in the future.

## Note 7. Animal Health License Agreements:

Effective May 1, 2004 Washington University in St. Louis (“WU”) and Venaxis entered into an Exclusive License Agreement (“WU License Agreement”), which grants Venaxis exclusive license and right to sublicense WU’s technology (as defined under the WU License Agreement) for veterinary products worldwide, except where such products are prohibited under U.S. laws for export. The term of the WU License Agreement continues until the expiration of the last of WU’s patents (as defined in the WU License Agreement) expire. Venaxis has agreed to pay minimum annual royalties of \$20,000 annually during the term of the WU License Agreement and such amounts are creditable against future royalties. Royalties payable to WU under the WU License Agreement for covered product sales by Venaxis carry a mid-single digit royalty rate and for sublicense fees received by Venaxis carry a low double-digit royalty rate. The WU License Agreement contains customary terms for confidentiality, prosecution and infringement provisions for licensed patents, publication rights, indemnification and insurance coverage. The WU License Agreement is cancelable by Venaxis with ninety days advance notice at any time and by WU with sixty days advance notice if Venaxis materially breaches the WU License Agreement and fails to cure such breach.

In July 2012, the Company entered into an Exclusive License Agreement (the “License Agreement”) with Ceva Santé Animale S.A. (“Licensee”), under which the Company granted the Licensee an exclusive royalty-bearing license, until December 31, 2028, to the Company’s intellectual property and other assets, including patent rights and know-how, relating to recombinant single chain reproductive hormone technology for use in non-human mammals (the “Company’s Animal Health Assets”). The License Agreement is subject to termination by the Licensee (a) for convenience on 180 days prior written notice, (b) in the Licensee’s discretion in the event of a sale or other disposal of the Company’s animal health assets, (c) in the Licensee’s discretion upon a change in control of the Company, (d) for a material breach of the License Agreement by the Company; or (e) in the Licensee’s discretion, if the Company becomes insolvent. The License Agreement is also terminable by the Company if there is a material breach of the License Agreement by the Licensee, or if the Licensee challenges the Company’s ownership of designated intellectual property. The License Agreement includes a sublicense of the technology licensed to the Company by WU. Under the terms of the WU License Agreement, a portion of license fees and royalties Venaxis receives from sublicensing agreements will be paid to WU. The obligation for such license fees due to WU is included in accrued expenses at March 31, 2016.

Under the License Agreement, the Licensee obtained a worldwide exclusive license to develop, seek regulatory approval for and offer to sell, market, distribute, import and export luteinizing hormone (“LH”) and/or follicle-stimulating hormone (“FSH”) products for bovine (cattle), equine and swine in the field of the assistance and facilitation of reproduction in bovine, equine and swine animals.

Under the License Agreement as of March 31, 2016, the following future milestone payments are provided, assuming future milestones are successfully achieved:

- Milestone payments, totaling up to a potential of \$1.1 million in the aggregate, based on the satisfactory conclusion of milestones as defined in the License Agreement;
- Potential for milestone payments of up to an additional \$2 million for development and receipt of regulatory approval for additional licensed products; and
- Royalties, at low double digit rates, based on sales of licensed products.

Revenue recognition related to the License Agreement and WU License Agreement is based primarily on the Company’s consideration of ASC 808-10-45, “*Accounting for Collaborative Arrangements*”. For financial reporting purposes, the license fees and milestone payments received from the License Agreement, net of the amounts due to third parties, including WU, have been recorded as deferred revenue and are amortized over the term of the License Agreement. License fees and milestone revenue totaling a net of approximately \$1,500,000 commenced being amortized into income upon the July 2012 date of milestone achievement. As of March 31, 2016, deferred revenue of \$96,698 has been classified as a current liability and \$1,137,840 has been classified as a long-term liability. The current liability represents the next twelve months’ portion of the amortizable milestone revenue. During the three months ended March 31, 2016 and 2015, \$24,175 in each period was recorded as the amortized license fee revenue arising from the License Agreement.

A tabular summary of the revenue categories and cumulative amounts of revenue recognition associated with the License Agreement follows:

Category	Totals
License fees and milestone amounts paid / achieved	\$ 1,920,000
Third party obligations recorded, including WU	(363,700)
Deferred revenue balance	1,556,300
Revenue amortization to March 31, 2016	(321,762)
Net deferred revenue balance at March 31, 2016	<u>\$ 1,234,538</u>
Commencement of license fees revenue recognition	Upon signing or receipt
Commencement of milestone revenue recognition	Upon milestone achievement over then remaining life
Original amortization period	197 months

**Note 8. Commitments and contingencies:**

**Commitments:**

As of March 31, 2016, the Company had employment agreements with two officers providing aggregate annual minimum commitments totaling \$655,000. The agreements automatically renew at the end of each year unless terminated by either party and contain customary confidentiality and benefit provisions.

Venaxis determined in the first quarter of 2016 to begin winding down and ceasing its *APPY1* commercial activities, due to continuing limited sales and losses from the European operations. This decision also resulted in a reduction of the Company's workforce, which was implemented as of January 31, 2016. In February 2016, Venaxis sent notices to its four European distributors informing them of the wind down and therefore the termination of their distribution agreements. Two of the distributors, linked by common management / ownership subsequently communicated to Venaxis that they dispute that Venaxis had the right to terminate the agreements. Under the terms of the distribution agreements, such a dispute shall first be attempted to be resolved between management of the parties and then subject to binding arbitration. Venaxis believes that the distributors' claims are without merit and any potential settlement or resolution will not be material to the Company's financial position.

**Contingencies:**

In the ordinary course of business and in the general industry in which the Company is engaged, it is not atypical to periodically receive a third party communication which may be in the form of a notice, threat, or "cease and desist" letter concerning certain activities. For example, this can occur in the context of the Company's pursuit of intellectual property rights. This can also occur in the context of operations such as the using, making, having made, selling, and offering to sell products and services, and in other contexts. The Company makes rational assessments of each situation on a case-by-case basis as such may arise. The Company periodically evaluates its options for trademark positions and considers a full spectrum of alternatives for trademark protection and product branding.

We are currently not a party to any legal proceedings, the adverse outcome of which would, in our management's opinion, have a material adverse effect on our business, financial condition and results of operations.

**Note 9. Subsequent event:**

Subsequent to March 31, 2016, 77,000 options were issued to non-employee directors under the Plan, exercisable at an average of \$2.89 per share. The options expire ten years from the date of grant and vest over one year, based upon 50% on the date of grant, and 25% on each of July 1, 2016, and October 1, 2016.

Subsequent to March 31, 2016, 150,000 options were issued to officers and employees under the Plan, exercisable at an average of \$2.89 per share. The options expire ten years from the date of grant and vest 50% upon each of the six month and the one year anniversary of the grant date.

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

### Management's plans and basis of presentation:

The Company has experienced recurring losses and negative cash flows from operations. At March 31, 2016, the Company had approximate balances of cash and liquid investments of \$16,600,000, working capital of \$16,183,000, total stockholders' equity of \$16,678,000 and an accumulated deficit of \$105,023,000. To date, the Company has in large part relied on equity financing to fund its operations. The Company expects to continue to incur losses from operations for the near-term and these losses could be significant as professional and other associated expenses in connection with possible strategic considerations, evaluations and transactions, appendicitis portfolio related expenses, public company and administrative related expenses are incurred. The Company believes that its current working capital position will be sufficient to meet its estimated cash needs into early 2017. The Company is closely monitoring its cash balances, cash needs and expense levels.

As of January 26, 2016, Venaxis publically disclosed that it had entered into a series of agreements, including a Master Agreement, for a combination transaction (the "Strand transaction") with Strand Life Sciences Private Limited and its shareholders ("Strand"). Strand is privately-held, and operates clinical reference labs in the US and in India, providing testing and lab services in India and other world-wide markets. Strand has commercialized a next generation sequencing (NGS) based, targeted, multi-gene, pan-cancer diagnostic panel in select international markets and has engaged in initial commercialization activities in the United States.

On March 11, 2016, Venaxis and Strand entered into a Mutual Termination Agreement to terminate the series of agreements. Pursuant to the Mutual Termination Agreement, each of the parties was relieved of any obligations or responsibilities under the Master Agreement and other transaction agreements. Each party remains responsible for its respective transaction-related costs.

Following the recent termination of the Strand transaction, the Company has begun evaluating potential strategic alternatives. The Company expects, in the near term, to establish the primary criteria it will consider as it evaluates its next steps and strategic path forward with the goal of maximizing value for its shareholders. As a result of the current market trends and uncertainties, and the impact on many companies, management believes that there may currently be attractive opportunities available to the Company.

Management's strategic assessment includes the following potential options:

- exploring other possible strategic options available to the Company following termination of the Strand transaction;
- evaluating options to monetize, partner or license the Company's appendicitis product portfolio;
- continuing to explore prospective partnering or licensing opportunities with complementary opportunities and technologies; and
- continuing to implement cost control initiatives to conserve cash.

As part of the Company's process to identify possible strategic partners, several targets were identified that the Company assessed as possibly having a business model that could be interested in discussions with Venaxis for possibly acquiring or licensing the appendicitis assets. Venaxis has made initial contact with several of these parties to gauge their interest level, which initially is more focused on the *APPY2* development assets. Management believes that the estimated potential market for an appendicitis test continues to be significant. If Venaxis is unable to locate a new strategic target, a partner or other third-party interested in advancing development and commercial activities of the Venaxis appendicitis portfolio, the capitalized costs on the Company's balance sheet, totaling approximately \$374,000, as of March 31, 2016 for the acute appendicitis patents may be deemed impaired.

### Results of Operations

#### Comparative Results for the Three Months Ended March 31, 2016 and 2015

No sales were recorded for the three months ended March 31, 2016, as compared to sales of \$11,000 in the 2015 period. The 2015 sales resulted from *APPY1* product sales in the EU. Sales of the *APPY1* products have been to customers for initial stocking and market study orders in the EU under commercial development agreements. The decrease is attributable to the wind down of the *APPY1* activities.

Cost of sales was zero and 35% of revenue for the three months ended March 31, 2016 and 2015, respectively. The decrease in the 2016 period is attributable to the wind down of the *APPY1* activities.



During the three month periods ended March 31, 2016 and 2015, \$24,000 in each period, of license payments under the License Agreement was recognized as revenue.

Selling, general and administrative expenses in the three months ended March 31, 2016 totaled \$1,030,000, which is approximately \$506,000, or 33%, decrease as compared to the 2015 period. Commercialization, marketing and compensation related expenses decreased by approximately \$329,000 in the 2016 period as the Company began winding down *APPY1* commercialization activities. Stock based compensation also decreased by approximately \$347,000 for the three months ended March 31, 2016 as compared to the 2015 period due to no options being granted to directors, management and employees. A decrease of \$78,000 in legal expenses for the 2016 period was due to the settlement/dismissal of litigation in late 2015. These decreases were offset by an increase in strategic evaluation costs of approximately \$302,000 as the Company continued to evaluate possible alternatives including the Strand transaction.

Research and development expenses in the three months ended March 31, 2016 totaled \$373,000, which is approximately a \$335,000, or 47%, decrease as compared to the 2015 period. A decrease of \$294,000 was due primarily to winding down development and commercialization of *APPY2* and *APPY1* operations. A decrease of \$137,000 was due to staff reductions related to winding down such operations. These decreases were partially offset by an increase in patent impairment costs of approximately \$134,000.

Interest expense for the three months ended March 31, 2016, increased to \$26,000 compared to \$25,000 in the 2015 period. For the three months ended March 31, 2016, the Company recorded investment income of approximately \$44,000 compared to investment income of \$51,000 in the 2015 period.

On February 25, 2016, the Company completed the sale of its corporate headquarters, land, building and certain fixtures and equipment to a third party at a purchase price of \$4,053,000. The sale resulted in a gain of approximately \$1,900,000 and generated approximately \$1,700,000 in net cash after expenses and mortgage payoffs. The Company is leasing back space in the building under short term lease agreements that provide office and storage space required for its current level of operations.

No income tax benefit was recorded on the net loss for the three months ended March 31, 2016 and 2015, as management was unable to determine that it was more likely than not that such benefit would be realized.

### **Liquidity and Capital Resources**

At March 31, 2016, we had working capital of \$16,183,000, which included cash, cash equivalents and short term investments of \$16,600,000. We reported a net income of \$560,000 during the three months ended March 31, 2016, which included \$1,742,000 in non-cash items consisting of stock-based compensation totaling \$48,000, depreciation and amortization totaling \$19,000, and impairment of patent costs of \$134,000, a net of gain on sale of property and equipment totaling \$1,919,000, and amortization of license fees totaling \$24,000.

We expect to continue to incur losses from operations for the near-term and these losses could be significant as we incur professional and other associated expenses in connection with the various strategic opportunities that are being evaluated, appendicitis portfolio related expenses, public company and administrative related expenses. We believe that our current working capital position will be sufficient to meet our estimated cash needs into early 2017. We may pursue potential additional financing opportunities; however, there can be no assurance that we will be able to obtain sufficient additional financing on terms acceptable to us, if at all. We are closely monitoring our cash balances, cash needs and expense levels. The accompanying financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that might result in our possible inability to continue as a going concern.

As a result of the termination of the Strand transaction, the Company is evaluating new strategic alternatives. If the Company is unable to locate a new strategic target, or a partner or other third-party interested in advancing development and or commercial activities of the Venaxis appendicitis portfolio, the costs the Company has incurred for the acute appendicitis patents and other development assets may be deemed impaired.

In July 2012, the Company entered into an Exclusive License Agreement (the "License Agreement") with Ceva Santé Animale S.A. ("Licensee"), under which the Company granted the Licensee an exclusive royalty-bearing license, until December 31, 2028, to the Company's intellectual property and other assets, including patent rights and know-how, relating to recombinant single chain reproductive hormone technology for use in non-human mammals (the "Company's Animal Health Assets"). The License Agreement is subject to termination by the Licensee (a) for convenience on 180 days prior written notice, (b) in the Licensee's discretion in the event of a sale or other disposal of the Company's animal health assets, (c) in the Licensee's discretion upon a change in control of the Company, (d) for a material breach of the License Agreement by the Company, or (e) in the Licensee's discretion, if the Company becomes insolvent. The License Agreement is also terminable by the Company if there is a material breach of the License Agreement by the Licensee, or if the Licensee challenges the Company's ownership of designated intellectual property. The License Agreement includes a sublicense of the technology licensed to the Company by Washington University in St. Louis ("WU"). Under the terms of the WU License Agreement, a portion of license fees and royalties Venaxis receives from sublicensing agreements will be paid to WU. The obligation for such license fees due to WU is included in accrued expenses at March 31, 2016.

Under the License Agreement as of March 31, 2016, the following future milestone payments are provided, assuming future milestones are successfully achieved:

- Milestone payments, totaling up to a potential of \$1.1 million in the aggregate, based on the satisfactory conclusion of milestones as defined in the License Agreement;
- Potential for milestone payments of up to an additional \$2 million for development and receipt of regulatory approval for additional licensed products; and
- Royalties, at low double digit rates, based on sales of licensed products.

The Company periodically enters into generally short-term consulting agreements, which at this time are primarily for assistance with our strategic evaluations. Such commitments at any point in time may be significant but the agreements typically contain cancellation provisions.

Prior to the February 2016 sale of its corporate headquarters, the Company had a permanent mortgage on its land and building that was refinanced in May 2013. The mortgage was held by a commercial bank and included a portion guaranteed by the U. S. Small Business Administration ("SBA"). The loan was collateralized by the real property and the SBA portion was also personally guaranteed by a former officer of the Company. The commercial bank loan terms included a payment schedule based on a fifteen year amortization, with a balloon maturity at five years. The commercial bank portion had an interest rate fixed at 3.95%, and the SBA portion bore interest at the rate of 5.86%. The commercial bank portion of the loan required total monthly payments of approximately \$11,700, which included approximately \$4,500 per month in interest. The SBA portion of the loan required total monthly payments of approximately \$9,000 through July 2023, which included approximately \$3,500 per month in interest and fees in 2016.

On February 25, 2016, the Company completed the sale of its corporate headquarters, land, building and certain fixtures and equipment to a third party at a purchase price of \$4,053,000. The sale resulted in a gain of approximately \$1,900,000 and generated approximately \$1,700,000 in net cash after expenses and mortgage payoffs. The Company is leasing back space in the building under short term lease agreements that provide office and storage space required for its current level of operations.

Venaxis determined in the first quarter of 2016 to begin winding down and ceasing its *APPY1* commercial activities, due to continuing limited sales and losses from the European operations. This decision also resulted in a reduction of the Company's workforce, which was implemented as of January 31, 2016. In February 2016, Venaxis sent notices to its four European distributors informing them of the wind down and therefore the termination of their distribution agreements. Two of the distributors, linked by common management / ownership subsequently communicated to Venaxis that they dispute that Venaxis had the right to terminate the agreements. Under the terms of the distribution agreements, such a dispute shall first be attempted to be resolved between management of the parties and then subject to binding arbitration. Venaxis believes that the distributors' claims are without merit and any potential settlement or resolution will not be material to the Company's financial position.

Due to recent market events that have adversely affected all industries and the economy as a whole, management has placed increased emphasis on monitoring the risks associated with the current environment, particularly the investment parameters of the short term investments, the recoverability of current assets, the fair value of assets, and the Company's liquidity. At this point in time, there has not been a material impact on the Company's assets and liquidity. Management will continue to monitor the risks associated with the current environment and their impact on the Company's results.

### **Operating Activities**

Net cash consumed by operating activities was \$1,903,000 during the three months ended March 31, 2016. Cash was generated by a net income of \$560,000, less non-cash expenses of \$201,000 for stock-based compensation, depreciation and amortization, and impairment of patent costs, offset by the gain on sale of property and equipment of \$1,919,000 and amortization of license fees totaling \$24,000. Decreases in prepaid and other current assets of \$69,000 provided cash, primarily related to routine changes in operating activities. There was a \$789,000 decrease in accounts payable and accrued expenses in the three months ended March 31, 2016, primarily due to the payment of 2015 accrued incentives in early 2016, and a reduction in overall expenses due to the wind down of the *APPY1* activities.

Net cash consumed by operating activities was \$2,287,000 during the three months ended March 31, 2015. Cash was consumed by the loss of \$2,186,000, less non-cash expenses of \$497,000 for stock-based compensation and depreciation and amortization, offset by the amortization of license fees totaling \$24,000. Decreases in prepaid and other current assets of \$97,000 provided cash, primarily related to routine changes in operating activities. There was a \$670,000 decrease in accounts payable and accrued expenses in the three months ended March 31, 2015, primarily due to a decrease in the accrued compensation.

### **Investing Activities**

Net cash inflows from investing activities provided \$3,849,000 during the three months ended March 31, 2016. Sales of marketable securities investments totaling approximately \$9,649,000 provided cash net of marketable securities purchased totaling approximately \$7,538,000. An \$11,000 use of cash was attributable to additional costs incurred from patent filings. The sale of the land, building and assets generated approximately \$1,749,000 in cash.

Net cash inflows from investing activities provided \$3,083,000 during the three months ended March 31, 2015. Sales of marketable securities investments totaled approximately \$14,403,000 and marketable securities purchased totaled approximately \$11,306,000. A \$15,000 use of cash was attributable to additional costs incurred from patent filings.

### **Financing Activities**

Net cash outflows from financing activities consumed \$117,000 during the three months ended March 31, 2016 in scheduled payments under debt agreements.

Net cash outflows from financing activities consumed \$134,000 during the three months ended March 31, 2015 in scheduled payments under debt agreements.

### **Critical Accounting Policies**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements. The most significant accounting estimates inherent in the preparation of our financial statements include estimates associated with revenue recognition, impairment analysis of intangibles and stock-based compensation.

The Company's financial position, results of operations and cash flows are impacted by the accounting policies the Company has adopted. In order to get a full understanding of the Company's financial statements, one must have a clear understanding of the accounting policies employed. A summary of the Company's critical accounting policies follows:

**Investments:** The Company invests excess cash from time to time in highly liquid debt and equity securities of highly rated entities which are classified as trading securities. Such amounts are recorded at market and are generally classified as current, as the Company does not intend to hold the investments beyond twelve months. Such excess funds are invested under the Company's investment policy but an unexpected decline or loss could have an adverse and material effect on the carrying value, recoverability or investment returns of such investments. Our Board has approved an investment policy covering the investment parameters to be followed with the primary goals being the safety of principal amounts and maintaining liquidity of the fund. The policy provides for minimum investment rating requirements as well as limitations on investment duration and concentrations.

**Intangible Assets:** Intangible assets primarily represent legal costs and filings associated with obtaining patents on the Company's new discoveries. The Company amortizes these costs over the shorter of the legal life of the patent or its estimated economic life using the straight-line method. The Company tests intangible assets with finite lives upon significant changes in the Company's business environment. The testing resulted in \$134,000 net patent impairment charges written off during the three month periods ended March 31, 2016 and zero for the three months ended March 31, 2015.

**Long-Lived Assets:** The Company records property and equipment at cost. Depreciation of the assets is recorded on the straight-line basis over the estimated useful lives of the assets. Dispositions of property and equipment are recorded in the period of disposition and any resulting gains or losses are charged to income or expense when the disposal occurs. The Company reviews for impairment whenever there is an indication of impairment.

**Revenue Recognition:** The Company's revenues are recognized when products are shipped or delivered to unaffiliated customers. The Securities and Exchange Commission's Staff Accounting Bulletin (SAB) No. 104, provides guidance on the application of generally accepted accounting principles to select revenue recognition issues. The Company has concluded that its revenue recognition policy is appropriate and in accordance with SAB No. 104. Revenue is recognized under sales, license and distribution agreements only after the following criteria are met: (i) there exists adequate evidence of the transactions; (ii) delivery of goods has occurred or services have been rendered; and (iii) the price is not contingent on future activity and (iv) collectability is reasonably assured.

**Stock-based Compensation:** ASC 718, *Share-Based Payment*, defines the fair-value-based method of accounting for stock-based employee compensation plans and transactions used by the Company to account for its issuances of equity instruments to record compensation cost for stock-based employee compensation plans at fair value as well as to acquire goods or services from non-employees. Transactions in which the Company issues stock-based compensation to employees, directors and consultants and for goods or services received from non-employees are accounted for based on the fair value of the equity instruments issued. The Company utilizes pricing models in determining the fair values of options and warrants issued as stock-based compensation. These pricing models utilize the market price of the Company's common stock and the exercise price of the option or warrant, as well as time value and volatility factors underlying the positions.

**Recently issued and adopted accounting pronouncements:** The Company has evaluated all recently issued accounting pronouncements and believes such pronouncements do not have a material effect on the Company's financial statements.

In May 2014, FASB issued Accounting Standards Update ("ASU") No. 2014-09 "Revenue from Contracts from Customers," which supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)," and requires entities to recognize revenue in a way that depicts the transfer of potential goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to the exchange for those goods or services. In July 2015, the FASB extended the effective date of ASU 2014-09 by one year, to now be effective for fiscal years, and interim periods beginning after December 15, 2017, and is to be applied retrospectively, with early adoption now permitted for fiscal years, and interim periods beginning after December 31, 2015. The Company does not believe that the new standard will have a material impact on its future operations and financial statements.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

#### **General**

We have limited exposure to market risks from instruments that may impact the Balance Sheets, Statements of Operations, and Statements of Cash Flows. Such exposure is due primarily to changing interest rates.

#### **Interest Rates**

The primary objective for our investment activities is to preserve principal while maximizing yields without significantly increasing risk. This is accomplished by investing excess cash in highly liquid debt and equity investments of highly rated entities which are classified as trading securities. As of March 31, 2016, approximately 11% of the investment portfolio was in cash and cash equivalents with very short term maturities and therefore not subject to any significant interest rate fluctuations. We have no investments denominated in foreign currencies and therefore our investments are not subject to foreign currency exchange risk.

#### **Item 4. Controls and Procedures**

##### **Evaluation of Disclosure Controls and Procedures**

Management of the Company, including the Chief Executive Officer and the Chief Financial Officer, has conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rule 13a-15(e)) as of the last day of the period of the accompanying financial statements. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of March 31, 2016.

##### **Changes in Internal Control Over Financial Reporting**

There was no change in the Company's internal control over financial reporting that occurred during the fiscal quarter to which this report relates that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

We are not a party to any other legal proceedings, the adverse outcome of which would, in our management's opinion, have a material adverse effect on our business, financial condition and results of operations.

### **Item 1A. Risk Factors**

There have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K, for the year ended December 31, 2015.

## Item 6. Exhibits

### (a) Exhibits

#### EXHIBIT DESCRIPTION

- |       |  |
|-------|--|
| 3.1   | Articles of Amendment to amend and restate the Articles of Incorporation, as amended, of Venaxis, Inc. (Incorporated by reference to the Registrant's Report on Form 8-K, dated March 24, 2016 and filed on March 29, 2016).   |
| 10.14 | Master Agreement, dated January 26, 2016, by and among Strand Life Sciences Private Limited, Strand Genomics, Inc. and Venaxis, Inc. (Incorporated by reference to the Registrant's Report on Form 8-K, dated January 26, 2016 and filed on January 27, 2016).             |
| 10.15 | Asset Purchase Agreement, dated January 26, 2016, by and between Strand Genomics, Inc., as seller, and Venaxis sub, Inc., as buyer. (Incorporated by reference to the Registrant's Report on Form 8-K, dated January 26, 2016 and filed on January 27, 2016).              |
| 10.16 | Form of Share Sale Agreement between Venaxis, Inc. and a Strand Life Sciences Private Limited Shareholder. (Incorporated by reference to the Registrant's Report on Form 8-K, dated January 26, 2016 and filed on January 27, 2016).                                       |
| 10.17 | Form of Investment Agreement between Venaxis, Inc. and a Strand Life Sciences Private Limited Shareholder. (Incorporated by reference to the Registrant's Report on Form 8-K, dated January 26, 2016 and filed on January 27, 2016).                                       |
| 10.18 | Form of Investment Agreement between Venaxis, Inc. and Biomark Capital Fund IV, L.P. (Incorporated by reference to the Registrant's Report on Form 8-K, dated January 26, 2016 and filed on January 27, 2016).   |
| 10.19 | Mutual Termination Agreement, dated March 11, 2016, by and among Venaxis, Inc., Strand Life Sciences Private Limited and Strand Genomics, Inc. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, dated and filed March 14, 2016). |
| 31.1  | Rule 13a-14(a)/15d-14(a) - Certification of Chief Executive Officer. Filed herewith.   |
| 31.2  | Rule 13a-14(a)/15d-14(a) - Certification of Chief Financial Officer. Filed herewith.   |
| 32    | Section 1350 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Furnished herewith.   |
| 99.1  | Notice to Corporate Stock Transfer Inc., as Warrant Agent, dated April 1, 2016 (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, dated March 31, 2016, and filed April 4, 2016).  |
| 101   | Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Balance Sheets, (ii) the Statements of Operations, (iii) the Statement of Cash Flows and (iv) the Notes to Condensed Financial Statements. (1)  |
- (1) Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be filed by the Company for purposes of Section 18 or any other provision of the Exchange Act of 1934, as amended.

SIGNATURES

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

Venaxis, Inc.  
(Registrant)

Dated: May 11, 2016

By: /s/ Jeffrey G. McGonegal  
Jeffrey G. McGonegal,  
Chief Financial Officer and duly authorized officer





## CERTIFICATION

I, Stephen T. Lundy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Venaxis, Inc.;
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 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 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.

May 11, 2016

/s/ Stephen T. Lundy  
Stephen T. Lundy, Chief Executive Officer and  
President

## CERTIFICATION

I, Jeffrey G. McGonegal, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Venaxis, Inc.;
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 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 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.

May 11, 2016

/s/ Jeffrey G. McGonegal  
Jeffrey G. McGonegal, Chief  
Financial Officer

CERTIFICATION 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 on Form 10-Q (the "Report") of Venaxis, Inc. (the "Company") for the quarter ended March 31, 2016, each of the undersigned Stephen T. Lundy and Jeffrey G. McGonegal, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of the undersigned's knowledge and belief:

- (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 results of operations of the Company.

May 11, 2016

/s/ Stephen T. Lundy  
Stephen T. Lundy, Chief Executive Officer and  
President

May 11, 2016

/s/ Jeffrey G. McGonegal  
Jeffrey G. McGonegal, Chief Financial Officer

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