

Akers Biosciences Inc  
Form 10-Q  
August 12, 2014

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended: **June 30, 2014**

**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 No. 333-190456**

**AKERS BIOSCIENCES, INC.**

(Exact name of registrant as specified in its charter)

**New Jersey**                      **22-2983783**  
(State or other jurisdiction)   (IRS Employer)

of incorporation) Identification No.)

**201 Grove Road**

**Thorofare, NJ 08086**

(Address of principal executive offices)

**(856) 848-2116**

(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 past 12 months, 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 (Sec.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, or 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 ☐ 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 ☒

As of August 12, 2014, there were 4,894,837 shares outstanding of the registrant's common stock.



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**PART I – FINANCIAL INFORMATION****Item 1. Financial Statements.****AKERS BIOSCIENCES, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets****June 30, 2014 and December 31, 2013**

	2014 (unaudited)	2013 (audited)
<b>ASSETS</b>		
Current Assets		
Cash	\$402,282	\$ 103,634
Marketable Securities	11,444,790	-
Trade Receivables (net)	1,045,170	118,404
Trade Receivables - Related Party	1,475,767	1,209,388
Other Receivables	17,161	748,962
Inventories (net)	752,603	1,025,104
Other Current Assets	101,644	163,890
Total Current Assets	15,239,417	3,369,382
Non-Current Assets		
Property, plant and equipment, net	224,621	267,321
Intangible assets, net	2,305,350	2,434,637
Other Assets	4,282	4,282
Total Non-Current Assets	2,534,253	2,706,240
Total Assets	\$17,773,670	\$6,075,622
<b>LIABILITIES</b>		
Current Liabilities		
Trade and Other Payables	\$638,215	\$1,000,413
Trade and Other Payables - Related Party	-	6,586
Short-Term Notes Payable - Related Party	-	307,500
Deferred Revenue - Related Party	333,333	333,333
Total Current Liabilities	971,548	1,647,832

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Non-Current Liabilities		
Deferred Revenue - Related Party	138,889	305,556
Total Non-Current Liabilities	138,889	305,556
Total Liabilities	1,110,437	1,953,388
EQUITY		
Convertible Preferred Stock, No par value, 50,000,000 shares authorized, no shares issued and outstanding as of June 30, 2014 and December 31, 2013	-	-
Common Stock, No par value, 500,000,000 shares authorized, 4,894,837 and 2,167,837 issued and outstanding as of June 30, 2014 and December 31, 2013	99,494,296	85,843,360
Accumulated Deficit	(82,827,514)	(81,721,126)
Accumulated Comprehensive Gains/(Losses)	(3,549 )	-
Total Equity	16,663,233	4,122,234
Total Liabilities and Equity	\$17,773,670	\$6,075,622

See accompanying notes to these condensed consolidated financial statements.

**AKERS BIOSCIENCES, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Operations and Comprehensive Loss****(unaudited)**

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Revenues:				
Product Revenue	\$ 1,269,823	\$ 361,514	\$ 1,594,030	\$ 743,662
Product Revenue - Related party	-	631,518	766,379	1,551,340
License Revenue	-	-	-	200,000
License Revenue - Related party	83,333	83,333	166,667	166,667
Total Revenue	1,353,156	1,076,365	2,527,076	2,661,669
Cost of Sales:				
Product Cost of Sales	(141,408 )	(633,022 )	(745,732 )	(1,409,384 )
Gross Profit	1,211,748	443,343	1,781,344	1,252,285
Administrative Expenses	1,017,047	271,087	1,475,726	482,014
Administrative Expenses - Related parties	-	109,924	195,002	193,675
Sales and Marketing Expenses	396,609	176,101	607,707	410,008
Research and Development Expenses	248,951	274,416	502,489	522,132
Amortization of Non-Current Assets	64,643	64,643	129,287	129,286
Loss from Operations	(515,502 )	(452,828 )	(1,128,867 )	(484,830 )
Other (Income)/Expenses				
Gain on sale of equity investment - Related party	-	(99,710 )	-	(99,710 )
Foreign Currency Transaction (Income)/Expense	(1,497 )	-	(3,896 )	87
Gain from demutualization of insurance carrier	-	-	(4,669 )	(91,286 )
Interest and Dividend Income	(19,010 )	-	(29,707 )	(1,054 )
Other Income	-	(91,905 )	-	(91,905 )
Total Other Income	(20,507 )	(191,615 )	(38,272 )	(283,868 )
Loss Before Income Taxes	(494,995 )	(261,213 )	(1,090,595 )	(200,962 )
Income Tax Benefit	-	-	-	-
Preferred Stock Dividend	(15,793 )	-	(15,793 )	-
Net Loss Attributable to Common Stockholders	\$(510,788 )	\$(261,213 )	\$(1,106,388 )	\$(200,962 )
Other Comprehensive Income/(Loss)				
Unrealized Gains/(Losses) on Marketable Securities	7,325	-	(3,549 )	-

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Total Other Comprehensive Income/(Loss)	\$7,325	\$-	\$(3,549	) \$-
Comprehensive Loss	\$(503,463	) \$(261,213	) \$(1,109,937)	\$(200,962 )
Basic & diluted loss per common share	\$(0.10	) \$(0.19	) \$(0.24	) \$(0.15 )
Weighted average basic & diluted common shares outstanding	4,894,837	1,369,114	4,548,312	1,324,280

See accompanying notes to these condensed consolidated financial statements.



**AKERS BIOSCIENCES, INC. AND SUBSIDIARIES****Condensed Consolidated Statement of Changes in Stockholder's Equity****For six months ended June 30, 2014**

	Shares Issued and Outstanding	Common Stock	Accumulated Deficit	Accumulated Comprehensive Losses	Total Equity
Balance at December 31, 2013 (Audited)	2,167,837	\$85,843,360	\$(81,721,126)	\$ -	\$4,122,234
Net loss for the period		-	(1,090,595 )	-	(1,090,595 )
Dividends paid on Series A Convertible Preferred Stock		-	(15,793 )	-	(15,793 )
Initial public offering, net of offering costs of \$1,897,164	2,727,000	13,101,336	-	-	13,101,336
Issuance of Non-Qualified Stock Options for Directors & Officers		357,276	-	-	357,276
Issuance of Non-Qualified Stock Options for Key Employees		192,324	-	-	192,324
Unrealized loss on marketable securities		-	-	(3,549 )	(3,549 )
Balance at June 30, 2014 (Unaudited)	4,894,837	\$99,494,296	\$(82,827,514)	\$ (3,549 )	\$16,663,233

See accompanying notes to these condensed consolidated financial statements.

**AKERS BIOSCIENCES, INC. AND SUBSIDIARIES****Condensed Consolidated Cash Flow Statements****For six months ended June 30, 2014 and 2013****(unaudited)**

	2014	2013
Cash flows from operating activities		
Net loss for the period	\$(1,090,595 )	\$(200,962 )
Adjustments to reconcile net loss to net cash used by operating activities:		
Accrued interest and dividends on marketable securities	(15,695 )	-
Depreciation and amortization	173,647	176,285
Gain from demutualization of insurer	(4,669 )	(91,286 )
Gain on sale of equity investment	-	(99,710 )
Non-cash share based compensation	549,600	-
Reversal of old trade payables	-	(91,905 )
Changes in assets and liabilities		
Increase in trade receivables	(926,766 )	(62,694 )
Increase in trade receivables - related party	(266,379 )	(1,031,375)
Increase in other receivables	(13,223 )	(21,916 )
Decrease in license fees receivable - related party	-	450,000
Decrease in inventories	272,501	120,042
Decrease in other assets	62,246	38,463
Increase/(decrease) in trade and other payables	(362,198 )	97,607
Decrease in other payables - related party	(6,586 )	(58,542 )
Decrease in legal settlement liabilities	-	(81,924 )
Decrease in deferred revenue - related party	(166,667 )	(166,667 )
Net cash used in operating activities	(1,794,784 )	(1,024,584)
Cash flows from investing activities		
Purchases of property, plant and equipment	(1,660 )	(70,840 )
Purchases of marketable securities	(12,513,973)	-
Proceeds from demutualization of insurance carrier	4,669	91,286
Proceeds from sale of equity investment	-	100,000
Proceeds from sale of marketable securities	1,081,329	-
Net cash provided by/(used in) investing activities	(11,429,635)	120,446
Cash flows from financing activities		
Proceeds from note receivable - related party for Series A Convertible Preferred Stock	-	225,000
Payment of short-term note payable - related party	(307,500 )	-
Proceeds from other receivable for London Private Placement	745,024	-
Proceeds from issuance of common shares	-	1,600,000

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Net proceeds from issuance of common stock in initial public offering	13,101,336	-
Dividend distribution on Series A Convertible Preferred Stock	(15,793	) -
Net cash provided by financing activities	13,523,067	1,825,000
Net increase in cash and cash equivalents	298,648	920,862
Cash at beginning of period	103,634	633,022
Cash at end of period	\$402,282	\$1,553,884
Supplemental Schedule of Non-Cash Financing and Investing Activities		
Unrealized losses on marketable securities	\$(3,549	) \$-

See accompanying notes to these condensed consolidated financial statements.

AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

**Note 1 – Nature of Business**

(a)	Reporting Entity
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The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information. Accordingly, they do not include all the information and disclosures required by GAAP for complete financial statements. Operating results for the three and six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation. These unaudited condensed consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and notes for the year ended December 31, 2013 included in Form 10-K of Akers Biosciences, Inc. (“the Company”).

The consolidated financial statements include two dormant subsidiaries, Akers Acquisition Sub, Inc. and Bout Time Marketing Corporation. All material intercompany balances have been eliminated upon consolidation.

(b)	Nature of Business
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The Company commenced research and development operations in September 1989, and until 2005 had devoted substantially all its efforts to establishing the new business.

The Company’s primary focus is the development and sale of disposable diagnostic testing devices that can be performed in minutes, to facilitate time sensitive therapeutic decisions. The Company’s main products are a disposable breathalyzer test that measures the blood alcohol content of the user, a rapid test detecting the antibody causing an allergic reaction to Heparin and a disposable breathalyzer test that measures Free Radical activity in the human body. When the Company enters into an agreement with a new distributor it requires an upfront licensing fee to be paid for the right to sell the Company’s products in specific markets.

**Note 2 - Basis of Presentation and Significant Accounting Policies**

(a)

**Basis of Presentation**

The consolidated financial statements of the Company are prepared in U.S. Dollars and in accordance with accounting principles generally accepted in the United States of America (US GAAP).

The Company is an emerging growth company as the term is used in The Jumpstart Our Business Startups Act enacted on April 5, 2012 and has elected to comply with certain reduced public company reporting requirements.

AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

**(b) Use of Estimates**

The preparation of financial statements in conformity with US GAAP requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes for revenue recognition, preferred stock, allowances for doubtful accounts, inventory write-downs, impairment of intangible assets and valuation of share based payments.

**(c) Foreign Currency**

These consolidated financial statements are presented in U.S. Dollars, which is the Company's functional currency. All financial information presented in U.S. Dollars has been rounded to the nearest dollar. Foreign Currency Transaction Gains or Losses, resulting from loans and cash balances denominated in Foreign Currencies, are recorded in the statement of operations.

**(d) Comprehensive Income/(Loss)**

The Company follows Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 220 in reporting comprehensive income (loss). Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income.

**(e) Cash and Cash Equivalents**

Cash and cash equivalents comprise cash balances. The Company considers all highly liquid investments, which include short-term bank deposits (up to 3 months from date of deposit) that are not restricted as to withdrawal date or use, to be cash equivalents. Bank overdrafts are shown as part of trade and other payables in the balance sheet.

(f)

**Fair Value of Financial Instruments**

The Company's financial instruments consist of cash and cash equivalents, receivables and trade and other payables. The carrying value of cash and cash equivalents, trade receivables and trade and other payables approximate their fair value because of their short maturities.

AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(g)

**Fair Value Measurement**

The Company applies fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as risks inherent in valuation techniques, transfer restrictions and credit risk. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

The Company's valuation techniques used to measure the fair value of money market funds and certain marketable equity securities were derived from quoted prices in active markets for identical assets or liabilities. The valuation techniques used to measure the fair value of all other financial instruments, all of which have counterparties with high credit ratings, were valued based on quoted market prices or model driven valuations using significant inputs derived from or corroborated by observable market data.

In accordance with the fair value accounting requirements, companies may choose to measure eligible financial instruments and certain other items at fair value. The Company has not elected the fair value option for any eligible financial instruments.



**(h) Trade Receivables, Trade Receivables – Related Party and Allowance for Doubtful Accounts**

The carrying amounts of current trade receivables is stated at cost, net of allowance for doubtful accounts and approximate their fair value given their short term nature.

AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The normal credit terms extended to customers ranges between 30 and 90 days. The Company reviews all receivables that exceed terms and establishes an allowance for doubtful accounts based on management's assessment of the collectability of trade and other receivables. A considerable amount of judgment is required in assessing the amount of allowance. The Company considers the historical level of credit losses, makes judgments about the credit worthiness of each customer based on ongoing credit evaluations and monitors current economic trends that might impact the level of credit losses in the future.

As of June 30, 2014 and December 31, 2013, allowances for doubtful accounts were \$- and \$-. Allowances charged for doubtful accounts amounted to \$- for the three and six months ended June 30, 2014 and 2013.

**(i) Concentration of Credit Risk**

The Company is exposed to credit risk in the normal course of business primarily related to trade receivables and cash and cash equivalents.

Substantially all of the Company's cash are maintained with Fulton Bank of New Jersey and Bank of America. The funds are insured by the Federal Deposit Insurance Corporation up to a maximum of \$250,000 per account or instrument, but are otherwise unprotected. The Company placed \$393,894 with Fulton Bank of New Jersey and \$4,282 with Bank of America as of June 30, 2014. The Company placed \$99,418 with Bank of America as of December 31, 2013.

Concentration of credit risk with respect to trade receivables exists as approximately 87% and 85% of its revenue was generated by three customers for the six months ended June 30, 2014 and the year ended December 31, 2013, respectively. These customers accounted for 97% and 97% of trade receivables as of June 30, 2014 and December 31, 2013. In order to limit such risks, the Company performs ongoing credit evaluations of its customers' financial condition.

**(j) Inventories**

Inventories are measured at the lower of cost or market. The cost of inventories is based on the weighted-average principle, and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, costs include an appropriate share of production overheads based on normal operating capacity.

**(k) Property, Plant and Equipment**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Costs include expenditures that are directly attributable to the acquisition of the asset.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized within “other income” in the statement of operations.

# AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

Depreciation is recognized in the statement of operations on the accelerated basis over the estimated useful lives of the property, plant and equipment. Leased assets are depreciated over the shorter of the lease term or their useful lives.

The estimated useful lives for the current and comparative periods are as follows:

	<b>Useful Life (in years)</b>
Plant and equipment	5-12
Furniture and fixtures	5-10
Computer equipment & software	3-5

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

## **(I) Intangible Assets**

### **(i) Patents and Trade Secrets**

The Company has developed or acquired several diagnostic tests that can detect the presence of various substances in a person's breath, blood, urine and saliva. Propriety protection for the Company's products, technology and process is important to its competitive position. As of June 30, 2014, the Company has eleven patents from the United States Patent Office in effect (7,896,167, 8,097,171, 7,285,246, 7,837,936, 8,003,061, 8,425,859, 5,565,366, 5,827,749, D691,056, D691,057 and D691,058). Other patents are in effect in Australia through the Design Registry (348,310, 348,311 and 348,312), the Community Trade Mark in the European Union ((OHIM) 002216895-0001, 002216895-0002 and 002216895-0003) and in Japan (4,885,134 and 4,931,821). Patents are in the national phase of prosecution in many Patent Cooperation Treaty participating countries. Additional proprietary technology consists of numerous different inventions. The Company intends to file additional patent applications, where appropriate, relating to new products, technologies and their use in the U.S., European and Asian markets. Management intends to protect all other intellectual property (e.g. copyrights, trademarks and trade secrets) using all legal remedies available to the Company.

### **(ii) Patent Costs**

Costs associated with applying for patents are capitalized as patent costs. Once the patents are approved, the respective costs are amortized over their estimated useful lives (maximum of 17 years) on a straight-line basis. Patent

pending costs for patents that are not approved are charged to operations the year the patent is rejected.

In addition, patents may be purchased from third parties. The costs of acquiring the patent are capitalized as patent **(iii)** costs if it represents a future economic benefit to the Company. Once a patent is acquired it is amortized over its remaining useful life.

**(iv)**

**Other Intangible Assets**

Other intangible assets that are acquired by the Company, which have definite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(v)

**Amortization**

Amortization is recognized on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

	<b>Useful Life (in years)</b>
Patents and trademarks	12-17
Customer lists	5

(m)

**Recoverability of Long-lived Assets**

In accordance with FASB ASC 360-10-35 “Impairment or Disposal of Long-lived Assets”, long-lived assets to be held and used are analyzed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable or that the useful lives of those assets are no longer appropriate. The Company evaluates at each balance sheet date whether events and circumstances have occurred that indicate possible impairment. No such events and circumstances have occurred during the six months ended June 30, 2014 and 2013.

The Company determines the existence of such impairment by measuring the expected future cash flows (undiscounted and without interest charges) and comparing such amount to the carrying amount of the assets. An impairment loss, if one exists, is then measured as the amount by which the carrying amount of the asset exceeds the discounted estimated future cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value of such assets less costs to sell. Asset impairment charges are recorded to reduce the carrying amount of the long-lived asset that will be sold or disposed of to their estimated fair values. Charges for the asset impairment reduce the carrying amount of the long-lived assets to their estimated salvage value in connection with the decision to dispose of such assets.

(n)

**Revenue Recognition**

In accordance with FASB ASC 605, the Company recognizes revenue when (i) persuasive evidence of a customer or distributor arrangement exists, (ii) a retailer, distributor or wholesaler receives the goods and acceptance occurs, (iii) the price is fixed or determinable, and (iv) the collectability of the revenue is reasonably assured. Subject to these criteria, the Company recognizes revenue from product sales when title passes to the customer based on shipping

terms. The Company typically does not accept returns nor offer charge backs or rebates except for certain distributors. Revenue recorded is net of any discount, rebate or sales return. No accrual for estimated sales returns and rebate incentives are necessary as of June 30, 2014 and December 31, 2013.

## AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

The Company's new distributor in Australia, Singapore, Oman and the United Arab Emirates, Thirty Six Strategies General Trading LLC ("36S"), placed their first order for one of the Company's REA based products during the three months ended June 30, 2014. The Company with the assistance of 36S, has submitted the product to Australia's Therapeutic Goods Administration ("TGA") and is awaiting final government approval for 36S to begin marketing the product. Although 36S has the right to return this product should the TGA deny government approval, the Company believes the likelihood of rejection is minimal and therefore recognized the entire sales transaction of \$864,000 in revenue during the three months ended June 30, 2014. The product carries a United States Food and Drug Administration ("FDA") Over-the-Counter approval (FDA K880723), three Conformité Européenne ("CE") Marks (DE/CA09/0170/IVD/1428; DE/CA09/0170/IVD/1429; DE/CA09/0170/IVD/1430) for the European Economic Area and a Health Canada approval (73007) for Canada. The Company has never been denied a foreign government approval for any of its products that carries an FDA approval.

The sole condition under which the product can be returned is the failure of the Company to attain TGA approval for the test. Given the existing approvals attained by the Company for the product and the Company's history with attaining foreign government approvals, the Company has determined that the risk of a product return is insignificant.

The Company granted 36S extended terms for this specific sale, as allowed in the distribution agreement, to allow Australia's Therapeutic Goods Administration time to issue the government approval required for them to begin actively marketing the product. The Company believes that the receivable is fully collectable and therefore no allowance for doubtful accounts is deemed necessary.

Based on the above, the Company determined that the revenue recognition for this transaction is in accordance with the FASB ASC 605-15-25-1 and 605-15-25-3.

License fee revenue is recognized on a straight-line basis over the term of the license agreement.

When the Company enters into arrangements that contain more than one deliverable, the Company allocates revenue to the separate elements under the arrangement based on their relative selling prices in accordance with FASB ASC 605-25.



(o)

**Income Taxes**

The Company follows FASB ASC 740 when accounting for income taxes, which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for temporary differences between the financial statements and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense or benefit is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

**(p) Shipping and Handling Fees and Costs**

The Company charges actual shipping plus a handling fee to customers, which amounted to \$8,999 and \$ \$17,237 for the three and six months ended June 30, 2014 and \$12,186 and \$22,584 for the three and six months June 30, 2013. These fees are classified as part of product revenue in the statement of operations. Shipping and other related delivery costs, including those for incoming raw materials are classified as part of the cost of net revenue, which amounted to \$18,170 and \$29,207 for the three and six months ended June 30, 2014 and \$23,719 and \$58,722 for the three and six months ended June 30, 2013.

**(q) Research and Development Costs**

In accordance with FASB ASC 730, research and development costs are expensed when incurred.

**(r) Stock-based Payments**

The Company accounts for stock-based compensation under the provisions of FASB ASC 718, Compensation—Stock Compensation, which requires the measurement and recognition of compensation expense for all stock-based awards made to employees and directors based on estimated fair values on the grant date. The Company estimates the fair value of stock-based awards on the date of grant using the Black-Scholes model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over shorter of the period over which services are to be received or the vesting period.

The Company accounts for stock-based compensation awards to non-employees in accordance with FASB ASC 505-50, Equity-Based Payments to Non-Employees. Under FASB ASC 505-50, the Company determines the fair value of the stock warrants or stock-based compensation awards granted as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable.

All issuances of stock warrants or other equity instruments to non-employees as consideration for goods or services received by the Company are accounted for based on the fair value of the equity instruments issued. The Company estimates the fair value of stock-based awards on the date of grant using the Black-Scholes model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the period which services are to

be received.

(s) **Basic and Diluted Earnings per Share of Common Stock**

Basic earnings per common share are based on the weighted average number of shares outstanding during the periods presented. Diluted earnings per share are computed using the weighted average number of common shares plus dilutive common share equivalents outstanding during the period. Potential common shares that would have the effect of increasing diluted earnings per share are considered anti-dilutive, i.e. the exercise prices of the outstanding stock options were greater than the market price of the common stock.

## AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(t) **Recently Adopted Accounting Pronouncements**

As of June 30, 2014 and for the six months then ended, there were no recently adopted accounting pronouncements that had a material effect on the Company's financial statements.

(u) **Recently Issued Accounting Pronouncements not Yet Adopted**

As of June 30, 2014, there are no recently issued standards not yet adopted which would have a material effect on the Company's financial statements.

**Note 3 – Marketable Securities**

The following table shows the Company's available-for-sale securities cost, accrued income, gross unrealized gains, gross unrealized losses and fair value by significant investment category recorded as marketable securities as of June 30, 2014. The Company had no marketable securities as of December 31, 2013.

	2014				
	Cost	Accrued Income	Unrealized Gains	Unrealized Losses	Fair Value
<b>Level 1:</b>					
Money market funds	\$900	\$-	\$ -	\$ -	\$900
Mutual funds	748,088	1,191	310	-	749,589
US agency securities	300,000	1,198	30	-	301,228
Certificates of deposits	3,920,000	8,452	-	(1,952 )	3,926,500
Corporate securities	600,000	1,253	-	(1,527 )	599,726
Municipal securities	5,863,656	3,601	-	(410 )	5,866,847
Total Level 1:	11,432,644	15,695	340	(3,889 )	11,444,790
<b>Total:</b>	\$11,432,644	\$15,695	\$ 340	\$ (3,889 )	\$11,444,790

The net realized losses are primarily related to long-term marketable securities. The Company may sell certain of its securities prior to their stated maturities for strategic reasons including, but not limited to, anticipation of credit deterioration and duration management. During the six months ended June 30, 2014 the net realized gains recognized by the Company were not significant. The maturities of the Company's long-term marketable securities generally range from one to three years.

As of June 30, 2014, the Company considered the declines in market value of its marketable securities investment portfolio to be temporary in nature and did not consider any of its investments other-than-temporarily impaired. The Company typically invests in highly-rated securities, and its investment policy generally limits the amount of credit exposure to any one issuer. The policy requires investments generally to be investment grade, with the primary objective of minimizing the potential risk of principal loss. Fair values were determined for each individual security in the investment portfolio. When evaluating an investment for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer and any changes thereto, changes in market interest rates, and the Company's intent to sell, or whether it is more likely than not it will be required to sell, the investment before recovery of the investment's cost basis. During the six months ended June 30, 2014 the Company did not recognize any significant impairment charges.

AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

**Note 4 - Inventories**

Inventories at June 30, 2014 and December 31, 2013 consists of the following categories:

	2014	2013
Raw Materials	\$343,871	\$299,464
Sub-Assemblies	356,183	335,229
Finished Goods	84,549	422,411
Reserve for Obsolescence	(32,000 )	(32,000 )
	\$752,603	\$1,025,104

For the three and six months ended June 30, 2014 and 2013, no charges were made to cost of goods sold for obsolete inventory.

## AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

**Note 5 - Property, Plant and Equipment**

Property, plant and equipment as of June 30, 2014 and December 31, 2013 are as follows:

	2014	2013
Computer Equipment	\$ 100,405	\$ 100,405
Computer Software	22,930	22,930
Office Equipment	50,049	50,049
Furniture & Fixtures	29,939	29,939
Machinery & Equipment	1,100,163	1,098,503
Molds & Dies	649,647	649,647
Leasehold Improvements	222,594	222,594
	2,175,727	2,174,067
Less		
Accumulated Depreciation	1,951,106	1,906,746
	\$ 224,621	\$ 267,321

Depreciation expense was \$22,180 and \$44,360 for the three and six months ended June 30, 2014 and \$23,500 and \$46,999 for the three and six months ended June 30, 2013.

**Note 6 - Intangible Assets**

Intangible assets as of June 30, 2014 and December 31, 2013 and the movements for the three months then ended are as follows:

	Patents & Trademarks	Distributor & Customer Relationships	Totals
Cost or Deemed Cost			

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At December 31, 2013	3,851,494	1,270,639	5,122,133
Additions	-	-	-
Disposals	-	-	-
At June 30, 2014	3,851,494	1,270,639	5,122,133

Accumulated Amortization

At December 31, 2013	1,416,857	1,270,639	2,687,496
Amortization Charge	129,287	-	129,287
Disposals	-	-	-
At June 30, 2014	1,546,144	1,270,639	2,816,783

Net Book Value

At December 31, 2013	2,434,637	-	2,434,637
At June 30, 2014	\$2,305,350	\$-	\$2,305,350

Amortization expense was \$64,643 and \$129,287 for the three and six months ended June 30, 2014 and \$64,643 and \$129,286 for the three and six months ended June 30, 2013.



AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

**Note 7 - Trade and Other Payables**

Trade and other payables as of June 30, 2014 and December 31, 2013 are as follows:

	2014	2013
Trade Payables	\$290,072	\$623,157
Other Payables	348,143	377,256
	\$638,215	\$1,000,413

Trade and other payables are non-interest bearing and are normally settled on 30 – 60 day terms.

**Note 8 - Deferred Revenue – Related Party**

Deferred revenue represents the unearned revenue from the 3-year exclusive License and Supply Agreement with Chubeworkx Guernsey Limited (Note 15) for the purchase and distribution of the Company's proprietary breathalyzer that was signed in June 2012. The first order for the proprietary breathalyzers was received in December 2012 for 3,500,000 units and additional orders were received in 2013 totaling 4,620,000 units. As of June 30, 2014, 8,120,000 units have been shipped. The license revenue is being recognized monthly on a straight line basis over the 3-year term of the agreement.

**Note 9 - Share-based Payments**

**(a)**

**Stock Warrants**

The Company has issued warrants to various employees, consultants and members of the Board of Directors of the Company for their services either in connection with the Company's ongoing efforts to raise capital or the development of the Company's products. In addition, the Company has granted warrants to lenders in connection with the issuance of debt. Each warrant granted may be exchanged for a prescribed number of shares of common stock. The warrants expire March 18, 2015.

	2014		2013	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Outstanding at January 1	1,989	\$ 71.76	47,211	\$ 48.54
Cancelled during year	-	-	-	-
Expired during year	-	-	-	-
Outstanding at June 30	1,989	\$ 71.76	47,211	\$ 48.54

On January 23, 2014, upon effectiveness of the registration statement filed with the SEC, the Company adopted the 2013 Incentive Stock and Award Plan (the “Plan”) which will provide for the issuance of up to 400,000 shares. The purpose of the Plan is to provide additional incentive to those officers, employees, consultants and non-employee directors of the Company and its parents, subsidiaries and affiliates whose contributions are essential to the growth and success of the Company’s business.

## AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

The 2013 Plan may be administered by the board or a board-appointed committee. Eligible recipients of option awards are employees, officers, consultants or directors (including non-employee directors) of the Company or of any parent, subsidiary or affiliate of the Company. The board has the authority to grant to any eligible recipient any options, restricted stock or other awards valued in whole or in part by reference to, or otherwise based on, our common stock.

**(b) Stock options**

Qualified option holders may exercise their options at their discretion. Each option granted may be exchanged for a prescribed number of shares of common stock.

Employee's Plan	2014		2013	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at January 1	-	\$ -	1,579	\$ 42.12
Forfeited during year	-	-	-	-
Expired during year	-	-	(1,579)	42.12
Outstanding at June 30	-	\$ -	-	\$ -

Director's Plan	2014		2013	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at January 1	-	\$ -	352	\$ 312.00
Cancelled during year	-	-	-	-
Expired during year	-	-	-	-
Outstanding at June 30	-	\$ -	352	\$ 312.00

2013 Incentive Stock & Award Plan	2014		2013	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at January 1	-	\$ -	-	\$ -
Granted during year	175,000	4.98	-	-

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Cancelled during year	-	-	-	-
Expired during year	-	-	-	-
Outstanding at June 30	175,000	\$ 4.98	-	\$ -

On June 10, 2014 the Company approved issuance of 115,000 options to purchase common shares to Directors and Officers at an exercise price of \$5.50 per common share and 60,000 options to purchase common shares to key employees at an exercise price of \$3.98 per common share. These options were issued under the 2013 Incentive Stock and Award Plan, in which an aggregate of up to 400,000 shares of the Company's common shares are reserved for issuance. All options are immediately exercisable and carry a five year expiration.

# AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

The calculated fair value of these options was distributed to the following categories on the Statement of Operations:

Expense Category	Fair Value
Cost of Goods	\$24,040
General & Administrative	357,276
Sales & Marketing	48,081
Research & Development	120,203
	\$549,600

The options and warrants issued under the above four plans were valued using a Black Scholes option pricing model. The assumptions utilized in calculating the value of the issued options under Black Scholes are as follows:

	2014
Expected option term	5 yrs
Expected volatility	127.32 %
Expected dividend yeild	0.00 %
Risk free interest rate	1.71 %

A summary of warrants and stock options outstanding and exercisable as of June 30, 2014 follows:

	Outstanding		Exercisable	
	Wgt'd	Wgt'd	Wgt'd	
	Avg	Avg	Avg	
	Life	Exercise	Exercise	
	Price	Price	Price	
	Low	High	Shares	Price
2013 Incentive Stock and Award Plan	\$3.98	\$5.50	175,000	5.00
Warrants	71.76	71.76	1,989	0.72
				\$4.98
				71.76

## Note 10 - Equity

The holders of common shares are entitled to one vote per share at meetings of the Company. Holders of Series A convertible preferred shares are entitled to five votes per share at meetings of the Company.

On June 12, 2013 the Company, in a private placement to ChubeWorkx, issued 512,820 common shares for \$1,600,000.

On August 8, 2013, the Company filed a registration statement with the Security and Exchange Commission seeking authority to begin trading the Company's common shares on the NASDAQ Stock Exchange ("NASDAQ").

On November 6, 2013, the Company approved a 156-to-1 reverse stock split of the Company's common shares to raise the price per share to \$10.11 as calculated using the November 6, 2013 closing AIM London Stock Exchange ("LSE") market price of £0.0405 or \$0.0648 per share to facilitate the initial public offering on NASDAQ. All shares and per share amounts in the consolidated financial statements have been adjusted to give retroactive effect to the 156-1 reverse stock split.

## AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

On November 15, 2013, Mr. Thomas Knox executed the conversion of 10,000,000 shares of Series A convertible preferred stock to 320,512 shares of common stock (50,000,000 pre-split shares) and entered into a promissory note of \$500,000 as a basis to provide the required onetime payment due upon conversion as set forth in the subscription agreement dated September 14, 2012. The promissory note requires payment of the principal in full prior to maturity date of November 15, 2014 (the "Maturity Date") with interest on the unpaid principal balance at the rate of the thirty day average LIBOR per annum commencing on November 15, 2013. The interest is to be paid in one lump sum on or before December 31 of each calendar year. The 320,512 shares of common stock will be held by the Company as collateral until all amounts owing under this note are paid. In the event that Mr. Knox does not pay in full all amounts due and owing under the note within 15 business days of the Maturity Date the Company has the right to cancel the 320,512 shares of common stock; provided however, the Company provides Mr. Knox no less than thirty (30) day written notice prior to cancelling the common stock. Mr. Knox shall have no less than sixty (60) days from the date the notice is received to pay all amount due and owing under the note.

On December 3, 2013, the note receivable received for the conversion of the Series A convertible preferred stock was cancelled in exchange of 58,515 shares of common stock at the AIM:LSE market closing price of £5.2250 using the exchange rate of \$1.6355 or \$8.5455 per share. The Company has recorded the receipt of the 58,515 shares as a reduction of the issued and outstanding common stock, as the shares were retired upon receipt.

On December 23 2013, the Company issued 114,072 common shares in a private placement offering. The transaction was recorded at the value of the net proceeds. The proceeds were recorded in Other Receivables at December 31, 2013. The cash proceeds from the sale were received on January 2, 2014. The expenses related to this private placement are detailed below:

	\$	\$
Gross Proceeds:		800,732
Broker Commission	40,037	
Legal Fees	15,672	
Total Expenses		55,708
Net Proceeds:		745,024

At December 31, 2013, the Company had an undeclared dividend due to Series A Convertible Preferred shareholders in the amount of \$15,793. The dividend was declared by the Board on May 12, 2014 and paid to shareholders on June 25, 2014.





## AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

On January 23, 2014, the Company issued 2,727,000 common shares in an initial public offering on the NASDAQ stock exchange. The transaction was recorded at the value of the net proceeds. The expenses related to this public offering are as follows:

	\$	\$
Gross Proceeds:		14,998,500
Underwriter/Aegis Expenses		
Underwriter Commission	1,049,895	
Underwriter Expenses	149,985	
Aegis Legal Fees	80,000	
Aegis Registration Expenses	7,500	
Aegis Miscellaneous Expenses	36,675	
Aegis Road Show Expenses	20,000	
Total		1,344,055
Akers Biosciences Expenses		
Legal & Accounting Expenses	393,298	
Printing & Document Prep	62,101	
Registration Expenses	55,946	
Road Show Expenses	41,764	
Total		553,109
Net Proceeds:		13,101,336

As of June 30, 2014 the Company has 176,989 reserved shares of its common stock for outstanding warrants and options. At December 31, 2013 the Company had 1,989 reserved shares of its common stock for outstanding warrants.

**Note 11 –Loss per share**

The calculation of basic and diluted loss per share for the six months ended June 30, 2014 and 2013 was based on a loss of \$1,106,388 and \$200,962 attributable to common shareholders and for the three months ended June 30, 2014 and 2013 was based on a loss of \$510,799 and \$261,213 attributable to commons stockholders, respectively.

Diluted loss per share is computed using the weighted average number of common and dilutive potential common shares outstanding during the periods presented.

Potential common shares consist of options and warrants. Diluted net loss per common share was the same as basic loss per common share for the three and six months ended June 30, 2014 and 2013 since the effect of options and warrants would be anti-dilutive due to the net loss attributable to the common shareholders for the periods. Instruments excluded from dilutive earnings per share, because their inclusion would be anti-dilutive, were 1,989 units of warrants and 175,000 units of options.

#### **Note 12 - Income Tax Expense**

There is no income tax benefit for the losses for the three and six months ended June 30, 2014 and 2013 since management has determined that the realization of the net deferred tax asset is not assured and has created a valuation allowance for the entire amount of such benefits.

## AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

The Company's policy is to record interest and penalties associated with unrecognized tax benefits as additional income taxes in the statement of operations. As of January 1, 2014, the Company had no unrecognized tax benefits, or any tax related interest or penalties. There were no changes in the Company's unrecognized tax benefits during the three and six months ended June 30, 2014 related to unrecognized tax benefits. With few exceptions, the U.S. and state income tax returns filed for the tax years ending on December 31, 2010 and thereafter are subject to examination by the relevant taxing authorities.

#### **Note 13 - Related Party Transactions**

On January 12, 2011, the Company entered into a consulting agreement with Nicolette Consulting Group Limited (NCG) for a period of three years under which the Company must pay NCG \$27,917 per month in fees and up to \$10,000 in reimbursement for monthly expenses (\$30,000 and \$30,000 for six months ended June 30, 2014 and 2013) for the services of Mr. Thomas A. Nicolette as President and Chief Executive Officer of the Company. The consulting agreement was extended through February 11, 2014 on December 23, 2013 and extended through March 31, 2014 on March 15, 2014. Mr. Nicolette has decided to step down from the Board and resigned from the Company effective March 28, 2014.

On March 17, 2010, in exchange for an exclusive licensing agreement, ABI received a 20 percent equity stake in BreathScan International Ltd (BIL). During 2012, BreathScan International Limited changed its name to en(10) Guernsey Limited ("en(10)"). Mr. Nicolette, the then President and Chief Executive Officer of the Company, was also appointed to en(10)'s Board of Directors. The equity stake is accounted for using the equity method of accounting in accordance with the Financial Accounting Standards Board Accounting Standards Codification. The equity investment was initially recorded at cost, which was nil. During the six months ended June 30, 2013 no profit or loss is recorded for en(10)'s results as en(10) recorded a net loss and the Company is not required to equity account any losses in excess of its carrying value on the books. On June 13, 2013 the Company sold its interest in en(10) to ChubeWorkx for \$100,000 and Mr. Nicolette resigned from en(10)'s Board of Directors.

On June 19, 2012, the Company entered into a 3 year exclusive License & Supply Agreement with Chubeworkx Guernsey Limited (as successor to SONO International Limited) ("Chubeworkx") for the purchase and distribution of ABI's proprietary breathalyzers outside North America. Chubeworkx paid a licensing fee of \$1,000,000 which is being recognized over the remaining term of the agreement (Note 5).

On June 13, 2013, the Company announced an expansion of the License and Supply Agreement with Chubeworkx to include worldwide marketing and distribution of the “Be CHUBE” program using the Company’s breathalyzer.

## AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

On August 5, 2013, the Board of Directors appointed Gary M Rauch, the principle of DataSys Solutions, LLC (DS), as the Corporate Treasurer. The Company entered into a consulting agreement with DS on January 1, 2011, with a term of three years, under which the Company agreed to pay \$5,625 per month for Mr. Rauch's services as Controller of the Company. The total amount of fees accrued for DS as of June 30, 2014 and December 31, 2013 was \$- and \$6,586 and is shown as Trade and Other Payables – Related Party in the Consolidated Balance Sheet. On March 18, 2014, the Board of Directors approved the appointment of Mr. Rauch as Vice President of Finance, retroactive to February 2, 2014, and he became an employee of the Company.

On December 23, 2013, the Company entered into a short-term bridge loan with Nicolette Consulting Group for \$307,500, payable on January 15, 2014 with a 5% per annum interest rate. The transaction was recorded as a Short-Term Notes Payable – Related Party. The loan, with interest amounting to \$969, was paid in full on January 15, 2014.

Trade receivables – related party as of June 30, 2014 and December 31, 2013 were amounts due from Chubeworkx, a major shareholder of the Company, of \$1,475,767 and \$1,209,388. The amount due is non-interest bearing, unsecured and has a term of 90 days generally. The Company and Chubeworkx have entered into discussions to modify the terms and conditions of these receivables.

Product revenue – related parties for the three and six months ended June 30, 2014 were \$- and \$766,369 and for the three and six months ended June 30, 2013 were \$631,518 and \$1,551,340 from Chubeworkx Guernsey Limited, a major shareholder of the Company.

Administrative expenses – related parties for the three and six months ended June 30, 2014 were \$- and \$183,752 for Nicolette Consulting Group and \$- and \$11,250 for DataSys Solutions. For the three and six months ended June 30, 2013 these expenses were \$109,924 and \$193,675 for Nicolette Consulting Group.

### **Note 14 - Commitments**

The Company leases its facility in West Deptford, New Jersey under an operating lease with annual rentals of \$130,200 plus common area maintenance (CAM) charges. The lease, which took effect on January 1, 2008, reduced

the CAM charges allowing the Company to reach their own agreements with utilities and other maintenance providers.

On January 7, 2013, the Company extended its lease agreement for a term of 7 years, expiring December 31, 2019. Under the terms of the lease, The Company will pay \$132,000 per year.

	\$
Next 12 Months	132,000
Next 13-24 Months	132,000
Next 25-36 Months	132,000
Next 37-48 Months	132,000
Next 49-60 Months	132,000
Thereafter	66,000

Rent expense, including related CAM charges, were \$40,290 and \$80,665 for the three and six months ended June 30, 2014 and \$37,005 and \$74,883 for the three and six months ended June 30, 2013.

AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

**Note 15 – Major Customers**

For the three ended June 30, 2014, two customers and for six months ended June 30, 2014, three customers each generated more than 10% of the Company's revenue. In aggregate, sales to these customers accounted for 88% and 87% of the Company's revenue. As of June 30, 2014, the amount due from these three customers was \$2,447,370. This concentration makes the Company vulnerable to a near-term severe impact should the relationships be terminated.

For the three and six months ended June 30, 2013, two customers each generated more than 10% of the Company's revenue. Sales to these customers accounted for 83% and 85% of the Company's revenue. As of June 30, 2013, the amount due from these customers was \$2,260,177.

**Note 16 – Major Suppliers**

For the three and six months ended June 30, 2014, three suppliers each accounted for more than 10% of the Company's purchases. In aggregate, these suppliers accounted for 44% and 36% of the Company's total purchases. As of June 30, 2014, the amount due to these three suppliers was \$11,677. This makes the Company vulnerable to a near-term severe impact should the relationships be terminated.

For the three and six months ended June 30, 2013, two suppliers each accounted for more than 10% of the Company's purchases. These suppliers accounted for 55% and 56% of the Company's total purchases. As of June 30, 2013, the amount due to the suppliers was \$145,978.

**Note 17 – Contingencies**

On November 7, 2013, the Company received a letter from the counsel of Rapid Breath Diagnostics, LLC ("RBD") alleging, among other things, the Company entered into a purported Authorized Distributor and License Agreement with RBD which was materially altered without RBD's consent. Additionally, RBD claims that the Company has violated certain intellectual property rights of RBD with respect to its Ketone Check and Metron products. RBD is

alleging that it has suffered \$250,000 in damages and that it has development and ownership of the market use of Ketone Check for the management of neurological diseases as well as intellectual property rights to the name Metron. The Company informed RBD that the alleged agreement was not fully executed, and that the Company's offer to enter into the agreement was void.



AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

On January 9, 2014, the Company commenced a lawsuit in the United States Federal Court, District of New Jersey, against Rapid Breath Diagnostics, LLC and David A. Urman (collectively, “the RBD Parties”). The Complaint requests that the Court declare the rights of the parties with respect to an alleged Distributor and License Agreement and to preliminary enjoin the RBD Parties from continuing to prosecute an arbitration filed with the American Arbitration Association with respect to the same subject matter (“the Arbitration”). Pursuant to stipulation of the parties, the Arbitration has since been discontinued in anticipation of the RBD Parties’ agreement to litigate the dispute in the court action. The Company is not able to assess its position in the court action in terms of favorable or unfavorable position and intends to vigorously defend against any counterclaims, if asserted.

This lawsuit was settled on July 22, 2014 (Note 18).

**Note 18 - Subsequent events**

On July 17, 2014, the Company announced that the United States Patent and Trademark Office (“USPTO”) has granted a patent covering Akers’ Breath Ketone detection device.

On July 22, 2014, the Company settled the lawsuit filed by RBD (Note 17) for a one-time nominal payment which was paid on July 23, 2014.

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

This quarterly report on Form 10-Q and other reports filed by Akers Biosciences, Inc. (the “Company”) from time to time with the SEC (collectively, the “Filings”) contain or may contain forward-looking statements and information that are based upon beliefs of, and information currently available to, the Company’s management as well as estimates and assumptions made by Company’s management. Readers are cautioned not to place undue reliance on these forward-looking statements, which are only predictions and speak only as of the date hereof. When used in the Filings, the words “anticipate,” “believe,” “estimate,” “expect,” “future,” “intend,” “plan,” or the negative of these terms and similar expressions as they relate to the Company or the Company’s management identify forward-looking statements. Such statements reflect the current view of the Company with respect to future events and are subject to risks, uncertainties, assumptions, and other factors, including the risks relating to the Company’s business, industry, and the Company’s operations and results of operations. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ significantly from those anticipated, believed, estimated, expected, intended, or planned.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance, or achievements. Except as required by applicable law, including the securities laws of the United States, the Company does not intend to update any of the forward-looking statements to conform these statements to actual results.

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. Our financial statements would be affected to the extent there are material differences between these estimates and actual results. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management’s judgment in its application. There are also areas in which management’s judgment in selecting any available alternative would not produce a materially different result. The following discussion should be read in conjunction with our financial statements and notes thereto appearing elsewhere in this report.

### **Overview**

Akers Biosciences, Inc. (“ABI,” “we” or the “Company”) develops, manufactures, and supplies rapid, point-of-care screening and testing products designed to bring health-related information directly to the patient or clinician in a time- and cost-efficient manner. ABI believes it has advanced the science of diagnostics through the development of several proprietary platform technologies that provide product development flexibility.

All of ABI's rapid, single-use tests are performed *in vitro* (outside the body) and are designed to enhance patient well-being and reduce the costs of healthcare. The Company's current product offerings and pipeline products focus on delivering diagnostic assistance in a wide variety of healthcare fields/specialties, including cardiology/emergency medicine, metabolism/nutrition, neuropsychiatry, oncology and infectious diseases detection, as well as for on- and off-the-job alcohol safety initiatives.

ABI believes that low-cost, unit-use testing not only saves time and money, but allows for more frequent, near-patient testing which may save lives. We believe that ABI's FDA-cleared rapid diagnostic tests help facilitate targeted diagnoses and real-time treatment. We also believe that ABI's rapid diagnostic tests surpass most other current diagnostic products with their flexibility, speed, ease-of-use, readability, low cost and accuracy. In minutes, detection of disease states and medical conditions can be performed on single-patient specimens, without sacrificing accuracy.

We believe the use of rapid tests, which can be performed at the point-of-care when and where the patient is being consulted or treated, can result in immediate diagnostic decisions and subsequent treatment regimens and is an important development in the practice of medicine. Point-of-care testing addresses today's challenges in the healthcare industry, such as:

- cost pressures/efficiency of healthcare delivery;
- need for affordable mass screening tests for key infectious diseases, cardiac conditions, and metabolic markers;
- need for easy to use, accurate at-home tests for individuals to monitor their personal health and wellness;
- need for tools for pharmaceutical companies to monitor side effects of medicines/new agents in development;
- public health needs in developing countries lacking basic health infrastructure

### **Management's Plans and Basis of Presentation**

To date, the Company has in large part relied on equity financing to fund its operations, raising \$676,068 in private placements in 2012, \$2,345,024 in private placements in 2013 and \$13,101,336, net of expenses, in an initial public offering on The NASDAQ Capital Market in 2014. Historically, the Company has experienced recurring losses and negative cash flows from operations which continued into the six months ended June 30, 2014. Management's strategic plans include the following:

- continuing to advance the development and commercialization of the Company's products, especially those that utilize MPC Biosensor, PIFA and seraSTAT technologies;
- continuing to strengthen and forge domestic and international relationships with well-established sales organizations with strong distribution channels in specific target markets for both our currently marketed and emerging products;
- establishing clinical protocols that support regulatory submissions and publication of data within peer-reviewed journals;
- continuing to monitor and implement cost control initiatives to conserve cash.

Despite our plans, the Company expects to continue to incur losses from operations for the near-term and these losses could be significant for the following reasons:

- some of ABI's distribution partnerships have been recently established or are in the process of being initiated and, therefore, consistent and historical ordering patterns have not been instituted;
- the Company continues to incur expenses related to the initial commercialization and marketing activities for METRON and VIVO, and product development (research, clinical trials, regulatory tasks) costs for its emerging products, Breath PulmoHealth "Check" rapid assays and PIFA PLUS® Infectious Disease point-of-care tests);
- to expand the use of its clinical laboratory products, the Company may need to invest in additional marketing support programs to increase brand awareness.

At June 30, 2014, ABI had cash of \$402,282 working capital of \$14,267,869, stockholders' equity of \$16,663,233 and an accumulated deficit of \$82,827,514. The Company believes that its current working capital position will be sufficient to meet its estimated cash needs for at least the next 36 months. The Company closely monitors its cash balances, cash needs and expense levels.

## **Results of Operations for the three months ended June 30, 2014 and 2013**

### **Revenue**

ABI's total revenue for the three months ended June 30, 2014 was \$1,353,156, a 26% increase from the same period in 2013. Product revenue totaled \$1,269,823 (2013: \$993,032) while the Company's license fee revenue remained unchanged, totaling \$83,333 the periods ended June 30, 2014 and 2013.

Revenue from Rapid Enzymatic Assay ("REA") products in the three months ended June 30, 2014 totaled \$864,000 (2013: \$-). This revenue is attributable to The Company's new distributor in Australia, Singapore, Oman and the United Arab Emirates, Thirty Six Strategies General Trading LLC ("36S"), which placed its first order with the Company during the period. The Company is also working with 36S on a number of product approvals in the territory.

MicroParticle Catalyzed Biosensor (“MPC”) product revenues decreased to \$61,690 (2013: \$676,580) during the period. This is attributable to a decline in orders from our world-wide distributor of the alcohol breathalyzer product, ChubeWorkx Guernsey Limited. During the three months ended June 30, 2014, ChubeWorkx accounted for \$- (2013: \$631,518) of our MPC product revenue. The decline is as a result of the French government’s postponement, indefinitely, of the fine that was to be imposed for drivers failing to possess breathalyzers in their vehicles. Although drivers are still required to carry the self-tests, the lack of a monetary fine has reduced product demand. It is unknown how long this interruption will continue for, but the Company’s distributor of alcohol breathalyzers believes that it is well positioned to resume large volume sales of the product should full enforcement resume.

Domestic sales of the Company’s PIFA Heparin/PF4 Rapid Assay products increased by 13% during the period to \$333,608 (2013: \$296,375). The Company’s dedicated technical sales account executives have moved away from a direct selling model to one that works in tandem with over 300 sales representatives of ABI’s US distribution partners, Cardinal Health (“Cardinal”), Medline Industries (“Medline”) and Fisher HealthCare (“Fisher”). The Company’s engagement with Medline began this quarter and sales have yet to commence. In addition, the PIFA PLUSS assay was added to Fisher’s distribution agreement in January of 2014; this expansion and relationship-building initiative has already delivered a measureable increase in product trials and adoptions.

The Company also entered into a telesales agreement with Typenex Medical (“Typenex”), a world leader in blood banking products for safety and streamlining processes and chain of custody. Their relationship within the hospital hematology department uniquely allows them access to the Company’s target market. They are now selling PIFA products into the market via their seasoned telesales group, specifically focused on PIFA PLUSS. This allows the Company to better reach the total market in the most cost effective commercial approach.

Cost of sales for the three months ended June 30, 2014 decreased by 78% compared to the same period in 2013 to \$141,408 from \$633,022 in 2013. Direct cost of sales declined to 3% and indirect cost of sales declined to 8% of product revenue for the three months ended June 30, 2014 as compared to 46% and 17% for the same period in 2013. Overall, cost of sales, as a percentage of product revenue, was 11% and 63% for the three month periods ended June 30, 2014 and 2013.

Direct cost of sales decreased primarily as a result of one significant event: during prior periods, the Company had removed its REA products from inventory while it worked to develop a market and identify a distributor for the product line. The Company has recently entered into a distribution agreement with, and made an initial sale to, 36S. As a result of this inventory write-down there was no significant cost of sales for this product reported for the three months ended June 30, 2014. Direct costs associated with the MPC products declined to 14% (2013: 41%), a result of the reduced sales activity to ChubeWorkx, and PIFA products remained steady at 12%.

The decrease in indirect cost of sales is attributed to decreases in shipping expenses, repairs and maintenance of equipment, and manufacturing supplies due to the reduced levels of production and improvements to the component

inventory handling and reporting procedures that resulted in a reduction of materials lost to the production process during the three months ended June 30, 2014.

ABI's gross profit margin, as a percentage of total revenue, improved to 89% for the three months ended June 30, 2014 as compared to 41% in 2013. The improvement in gross profit margin was derived from events described above for the three months ended June 30, 2014. The increase in gross margin was due in large part to the REA product sales having no significant cost of sales attached, it should not be assumed that the gross profit margin for REA product sales will be maintained in the future.

### **General and Administrative Expenses**

General and administrative expenses for the three months ended June 30, 2014, totaled \$1,017,047, which was a 167% increase as compared to \$381,011 for the three months ended June 30, 2013. The increase is related to personnel (\$217,524 (2013: \$45,001)), professional services (\$114,915 (2013: \$26,223)), stock market and investor relations activities (\$165,636 (2013: \$80,162)), travel (\$24,269 (2013 \$124)) and the issuance of stock options for Directors and Officers (\$357,276 (2013: \$-)).

The increases in professional services and stock market and investor relations activities are directly related to the maintenance of our stock listings in the United States (NASDAQ) and Great Britain (London Stock Exchange). The dual listing requires us to maintain public relations, stock registrars, nominated advisors and legal counsel for both markets and requires additional accounting services to insure compliance with regulators.

## Sales and Marketing Expenses

Sales and marketing expenses for the three months ended June 30, 2014 totaled \$396,609, which was a 125% increase as compared to \$176,101 for the three months ended June 30, 2013. The increase was the result of general consulting services (\$202,578 (2013: \$2,075)) and the issuance of stock options for key employees (\$48,081 (2013: \$-)). The general consulting fees are for the development of sales and marketing programs and the exploration of governmental opportunities and additional international markets for our products.

## Research and Development

Research and development expenses for the three months ended June 30, 2014 totaled \$248,951, which was a 9% decrease as compared to \$274,416 for the three months ended June 30, 2013. The decrease was the result of personnel reassignments which reduced personnel costs (\$77,201 (2013: \$233,033)) but was partially offset by the issuance of stock options to key employees (\$120,203 (2013: \$-)). There has been a significant increase in activities related to obtaining regulatory approvals.

The Company entered into an agreement with an outside product and design firm on July 14, 2014 to work with internal personnel to review and further develop the VIVO product line. The Company believes that enhancing the capabilities of the VIVO product will allow further exposure into the large Health and Wellness market segment.

The following table illustrates research and development costs by project for the three months ended June 30, 2014 and 2013, respectively.

	2014	2013
Asthma/pH	\$2,241	\$-
Breath Alcohol Phone App	6,747	-
BreathScan Pro	149	2,497
CHUBE	2,017	2,497
H/PF4	16,232	99,778



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HIV	51,135	-
Ketone/Metron	10,929	79,827
Lyophilization	14,066	7,492
Malaria	3,535	-
Malondialdehyde	-	29,939
Other Projects	6,199	-
PF4 PLUSS	19,294	24,944
Tri-Cholesterol	54,794	-
VIVO	61,613	27,442
Total R&D Expenses:	\$248,951	\$274,416

### Other Income and Expense

Other income declined for the three months ended June 30, 2014 to \$20,507 from \$191,615 for the same period in 2013. Gains from foreign currency transactions of \$1,497 (2013: \$-) and interest and dividends from investments amounted to \$19,010 (2013: \$1,054). During the three months ended June 30, 2013, the Company recognized \$91,905 as the result of reversals of old trade payables and \$99,710 from the sale of its 20% equity stake in BreathScan International to Chubeworkx Guernsey Limited.

## Results of Operations for the six months ended June 30, 2014 and 2013

### Revenue

ABI's total revenue for the six months ended June 30, 2014, totaled \$2,527,076, a 5% decrease from the same period in 2013. The revenue decline was due to reduced MPC product sales, which decreased by 49% and a decrease in licensing fee revenue by 55%. In the six months ended June 30, 2013, the Company received a one-time restricted licensing fee of \$200,000 from a customer while they performed a product evaluation, otherwise the Company's license fee revenue remained unchanged for the period ended June 30, 2014. These declines were partially offset by increases in PIFA sales of 5% and the addition of sales of the REA products.

MPC product revenues decreased during the period. This is attributable to a decline in orders from our world-wide distributor of the alcohol breathalyzer product, ChubeWorkx Guernsey Limited. During the six months ended June 30, 2014, ChubeWorkx accounted for \$766,379 (2013: \$1,551,340) of our MPC product revenue all of which was recorded during the first quarter. The decline is as a result of the French government's postponement indefinitely of the fine that was to be imposed for drivers failing to possess breathalyzers in their vehicles. Although drivers are still required to carry the self-tests, the lack of a monetary fine has naturally reduced the demand. It is unknown how long this interruption will continue for, but the Company's distributor of alcohol breathalyzers believes that it is well positioned to resume large volume sales of the product should full enforcement resume.

Domestic sales of the Company's PIFA Heparin/PF4 Rapid Assay products increased to \$642,790 (2013: \$611,031) for the period ended June 30, 2014. The Company's dedicated technical sales account executives have moved away from a direct selling model to one that works in tandem with over 300 sales representatives of ABI's US distribution partners, Cardinal Health ("Cardinal"), Medline Industries ("Medline") and Fisher HealthCare ("Fisher"). The engagement with Medline began this quarter and sales have yet to commence. In addition, the PIFA PLUSS assay was just added to Fisher's distribution agreement in January of 2014; this expansion and relationship-building initiative have already delivered a measureable increase in product trials and adoptions.

The Company also entered into a telesales agreement with Typenex Medical ("Typenex"), a world leader in blood banking products for safety and streamlining processes and chain of custody on June 8, 2014. Their relationship within the hospital hematology department uniquely allows them access to the Company's target market. They are now selling PIFA products into the market via their seasoned telesales group, specifically focused on PIFA PLUSS. This allows the Company to better reach the total market in the most cost effective commercial approach.

International sales of REA products totaled \$864,000 (2013: \$-) for the period ended June 30, 2014. ABI, with the assistance of its distributor in the region, has submitted the product to Australia's Therapeutic Goods Administration

(“TGA”) and is awaiting final government approval for 36S to begin marketing the product.

Cost of sales for the six months ended June 30, 2014 decreased by 47% compared to the same period in 2013 to \$745,732 from \$1,409,384 in 2013. Direct cost of sales declined to 22% (2013: 45%) while indirect cost of sales declined to 9% (2013: 17%) of product revenue for the six months ended June 30, 2014. Overall, cost of sales, as a percentage of product revenue, was 32% and 61% for the six month periods ended June 30, 2014 and 2013.

Direct cost of sales decreased primarily as a result of one significant event: during prior periods, the Company had removed its REA products from inventory while it worked to develop a market and identify a distributor for the product line. The Company has recently entered into a distribution agreement with, and made an initial sale to, 36S. As a result of this inventory write-down there was no significant cost of sales for this product reported for the six months ended June 30, 2014. Direct costs associated with the MPC products increased to 47% (2013: 41%) and PIFA products remained steady at 12%.

The decrease in indirect cost of sales is attributed to decreases in shipping expenses, repairs and maintenance of equipment, and manufacturing supplies due to the reduced levels of production and improvements to the component inventory handling and reporting procedures that resulted in a reduction of materials lost to the production process during the six months ended June 30, 2014.

ABI's gross profit margin, as a percentage of total revenue, improved to 70% for the six months ended June 30, 2014 as compared to 47% in 2013. The improvement in gross profit margin was derived from events described above for the six months ended June 30, 2014. The increase in gross margin was due in large part to the REA product sales having no significant cost of sales attached, it should not be assumed that the gross profit margin for REA product sales will be maintained in the future.

### **General and Administrative Expenses**

General and administrative expenses for the six months ended June 30, 2014, totaled \$1,670,728, which was a 147% increase as compared to \$675,689 for the six months ended June 30, 2013. The increase is related personnel (\$266,996 (2013: \$76,135)), professional services (\$221,835 (2013: \$74,734)), stock market and investor relations activities (\$349,031 (2013: \$101,198)), travel (\$24,367 (2013: \$553)) and to the issuance of stock options for Directors and Officers (\$357,276 (2013: \$-)).

The increases in professional services and stock market and investor relations activities are directly related to the maintenance of our stock listings in the United States (NASDAQ) and Great Britain (London Stock Exchange). The dual listing requires us to maintain public relations, stock registrars, nominated advisors and legal counsel for both markets and requires additional accounting services to insure compliance with regulators.

### **Sales and Marketing Expenses**

Sales and marketing expenses for the six months ended June 30, 2014 totaled \$607,707, which was a 48% increase as compared to \$410,008 for the three months ended June 30, 2013. The increase was the result of general consulting services (\$231,128 (2013: \$11,875)) and the issuance of stock options for key employees (\$48,081 (2013: \$-)) and was offset by declines in royalties (\$64,190 (2013: 115,023)) and outside sales commissions (\$10,000 (2013: \$43,240)). The general consulting fees are for the development of sales and marketing programs and the exploration of governmental opportunities and additional international markets for our products.

### **Research and Development**

Research and development expenses for the six months ended June 30, 2014 totaled \$502,489, which was a 4% decline as compared to \$522,132 for the six months ended June 30, 2013. The decrease was the result of personnel reassignments which reduced personnel costs (\$295,516 (2013: \$446,999)) but was partially offset by increases in professional services (\$24,613 (2013: \$3,513)) and consumable supplies (\$22,715 (2013: \$11,579)) and the issuance

of stock options to key employees (\$120,203 (2013: \$-)). There has been a significant increase in activities related to obtaining regulatory approvals.

The Company entered into an agreement with an outside product and design firm on July 14, 2014 to work with internal personnel to review and further develop the VIVO product line. The Company believes that enhancing the capabilities of the VIVO product will allow further exposure into the large Health and Wellness market segment.

The following table illustrates research and development costs by project for the six months ended June 30, 2014 and 2013, respectively.

	2014	2013
Asthma/pH	\$5,359	\$-
Breath Alcohol Phone App	6,747	-
BreathScan Pro	13,866	4,751
CHUBE	3,867	4,751
H/PF4	55,124	189,848
HIV	56,586	-
Ketone/Metron	48,249	151,888
Lyophilization	68,906	14,254
Malaria	6,755	-
Malondialdehyde	-	56,965
Other Products	6,199	-
PF4 PLUSS	20,080	47,462
Tri-Cholesterol	54,794	-
VIVO	155,957	52,213
Total R&D Expenses:	\$502,489	\$522,132

## Other Income and Expense

Other income declined for the six months ended June 30, 2014 to \$38,272 from \$283,868 for the same period in 2013. During the six months ended June 30, 2014, the Company recognized gains from foreign currency transactions of \$3,896 (2013: loss of \$87), interest and dividends from investments amounted to \$29,707 (2013: \$1,054) and \$4,669 (2013: \$91,286) in other income from the net proceeds gained from ABI's insurer demutualizing. During the six months ended June 30, 2013, the Company recognized \$91,905 as the result of reversals of old trade payables and \$99,710 from the sale of its 20% equity stake in BreathScan International to Chubeworkx Guernsey Limited.

## Income Taxes

As of June 30, 2014, the Company does not believe any uncertain tax positions exist that would result in the Company having a liability to the taxing authorities. The Company's policy is to classify interest and penalties related to unrecognized tax benefits, if and when required, as part of interest expense and general and administrative expense, respectively in the consolidated statement of operations.

## Liquidity and Capital Resources

For the six months ended June 30, 2014 and 2013, the Company generated a net loss of \$1,090,595 and \$200,962, respectively. As of June 30, 2014 and December 31, 2013, the Company has an accumulated deficit of \$82,827,514 and \$81,721,126 and had cash totaling \$402,282 and \$103,634 respectively.

Currently, our primary focus is to expand the domestic and international distribution of our PIFA Heparin/PF4 rapid assays and support Chubeworkx international distribution of its CHUBE private-labeled breath alcohol detectors. The Company continues initial commercialization tasks for METRON and VIVO, as well as development activities for its PIFA PLUS<sup>®</sup> Infectious Disease single-use assays, Breath Ketone "Check", and Breath PulmoHealth "Check" products, including advancement of the steps required for FDA clearance or CE marking in the EU where necessary.

We expect to continue to incur losses from operations for the near-term and these losses could be significant as we incur product development, clinical and regulatory activities, contract consulting and other product development and commercialization related expenses. We believe that our current working capital position, \$14,267,869 as of June 30, 2014, will be sufficient to meet our estimated cash needs for at least 36 months. 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 the possible inability of the Company to continue as a going concern.

We expect that our primary expenditures will be to continue development of PIFA PLUS<sup>®</sup> Infectious Disease single-use assays, Breath Ketone “Check” and Breath PulmoHealth “Check” products and to enroll patients in clinical trials to support performance claims, generate studies in peer-reviewed journals to support product marketing, and provide data for the FDA 510(k) clearance/CE certifications processes when required. We will also continue to support commercialization and marketing activities of already-commercialized products (PIFA Heparin/PF4 rapid assays, PIFA PLUS<sup>®</sup> PF4, breath alcohol detectors, METRON and VIVO)) in the US and internationally. Based upon our experience, clinical trial and related regulatory expenses can be significant costs. Steps to achieve commercialization of emerging products will be an ongoing and evolving process with expected improvements and possible subsequent generations being evaluated for commercialized and emerging tests. Should we be unable to achieve FDA clearance for products that require such regulatory “approval”, develop performance characteristics for rapid tests that satisfy market needs, or generate sufficient revenue from commercialized products, we would need to rely on other business or product opportunities to generate revenue and the capitalized costs that we have incurred for the patents may be deemed impaired.

The Company is currently pursuing ISO certification of its quality management system which would allow the Company to meet the regulatory requirements for product sales in large, international markets (e.g. India). We may also consider acquisitions of development technologies or products, if opportunities arise that we believe fit our business strategy and would be appropriate from a capital standpoint.

Capital expenditures, primarily for production, laboratory and facility improvement costs for the year ended December 31, 2014 are anticipated to total approximately \$150,000. As per the Company's lease agreement, the owner of the facility will be handling the majority of facility upgrades, and we anticipate financing any production and laboratory capital expenditures through working capital.

The Company may enter into generally short-term consulting and development agreements primarily for testing services and in connection with clinical trials conducted as part of the Company's development process which may include activities related to the development of technical files for FDA 510(k) clearance submissions. Such commitments at any point in time may be significant but the agreements typically contain cancellation provisions.

We lease our manufacturing facility which also contains our administrative offices. Our current lease was executed January 1, 2013 and is effective through December 31, 2019. The Company has leased this property from the current owner since 1997.

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 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**

ABI's net cash consumed by operating activities totaled \$1,794,784 during the six months ended June 30, 2014. Cash was consumed by the loss of \$1,090,595 less non-operating gains of \$20,364 plus non-cash adjustments of \$723,247 for depreciation and amortization of non-current assets and the issuance of stock options. For the six months ended June 30, 2014, decreases in inventory and other assets of \$334,747 provided cash while a net increase in trade receivables, trade receivables – related parties and other receivables of \$1,206,368 and a decrease in trade and other payables, trade and other payables – related parties and deferred revenue – related party of \$535,451 consumed cash from operating activities.



ABI's net cash consumed by operating activities was \$1,024,584 during the six months ended June 30, 2013. Cash was consumed by the loss of \$200,962, less non-operating gains of \$282,901 plus a non-cash adjustment of \$176,285 for depreciation and amortization of non-current assets. For the six months ended June 30, 2013, decreases in license fees receivable – related party, inventory, other assets and an increase in trade and other payables generated cash of \$706,112. Increases in trade and other receivables, trade receivables – related party and other receivables and decreases in other payables – related party, legal settlements and deferred revenue – related party of \$1,423,118 consumed cash from operating activities.

### **Critical Accounting Policies**

We intend to utilize the extended transition period provided in Securities Act Section 7(a)(2)(B) as allowed by Section 107(b)(1) of the JOBS Act for the adoption of new or revised accounting standards as applicable to emerging growth companies. Under the JOBS Act, emerging growth companies may delay adopting new or revised accounting standards that have different effective dates for public and private companies until such time as those standards apply to private companies. We have elected to use the extended transition period for complying with these new or revised accounting standards. Since we will not be required to comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies, our financial statements may not be comparable to the financial statements of companies that comply with public company effective dates. If we were to elect to comply with these public company effective dates, such election would be irrevocable pursuant to Section 107 of the JOBS Act.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (US 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, allowances for doubtful accounts, inventory obsolescence 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:

### **Marketable Securities**

The Company applies fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as risks inherent in valuation techniques, transfer restrictions and credit risk. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

The Company's valuation techniques used to measure the fair value of money market funds and certain marketable equity securities were derived from quoted prices in active markets for identical assets or liabilities. The valuation techniques used to measure the fair value of all other financial instruments, all of which have counterparties with high credit ratings, were valued based on quoted market prices or model driven valuations using significant inputs derived from or corroborated by observable market data.

In accordance with the fair value accounting requirements, companies may choose to measure eligible financial instruments and certain other items at fair value. The Company has not elected the fair value option for any eligible financial instruments.

#### **Trade Receivables, Trade Receivables – Related Party and Allowance for Doubtful Accounts**

The carrying amounts of current trade receivables is stated at cost, net of allowance for doubtful accounts and approximate their fair value given their short term nature.

The normal credit terms extended to customers ranges between 30 and 90 days. The Company reviews all receivables that exceed terms and establishes an allowance for doubtful accounts based on management's assessment of the collectability of trade and other receivables. A considerable amount of judgment is required in assessing the amount of allowance. The Company considers the historical level of credit losses, makes judgments about the credit worthiness of each customer based on ongoing credit evaluations and monitors current economic trends that might impact the level of credit losses in the future.

## **Intangible Assets**

Intangible assets primarily represent legal and filing costs associated with obtaining patents on the Company's new discoveries or acquiring patents for diagnostic technologies or tests that will enhance the Company's product portfolio. The Company has developed or acquired several diagnostic tests that can detect the presence of various substances in a person's breath, blood, urine and saliva. Propriety protection for the Company's products, technology and process is important to its competitive position. To date, the Company has eleven patents from the United States Patent Office in effect (7,896,167, 8,097,171, 7,285,246, 7,837,936, 8,003,061, 8,425,859, 5,565,366, 5,827,749, D691,056, D691,057 and D691,058). Other patents are in effect in Australia through the Design Registry (348,310, 348,311 and 348,312), the Community Trade Mark in the European Union ((OHIM) 002216895-0001, 002216895-0002 and 002216895-0003) and in Japan (4,885,134 and 4,931,821). Patents are in the national phase of prosecution in many PCT participating countries. Additional proprietary technology consists of numerous different inventions. The Company intends to file additional patent applications, where appropriate, relating to new products, technologies and their use in the U.S., European and Asian markets. Management intends to protect all other intellectual property (e.g. copyrights, trademarks and trade secrets) using all legal remedies available to the Company.

Costs associated with applying for patents are capitalized as patent costs. Once the patents are approved, the respective costs are amortized over a period of twelve to seventeen years on a straight-line basis. Patent pending costs for patents that are not approved are charged to operations the year the patent is rejected.

In addition, patents may be purchased from third parties. The costs of acquiring the patent are capitalized as patent costs if it represents a future economic benefit to the Company. Once a patent is acquired it is amortized over its remaining life. 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.

## **Property, Plant and Equipment**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within "other income" in profit or loss.

## **Recoverability of Long-lived Assets**

In accordance with FASB ASC 360-10-35 “Impairment or Disposal of Long-lived Assets”, long-lived assets to be held and used are analyzed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable or that the useful lives of those assets are no longer appropriate. The Company evaluates at each balance sheet date whether events and circumstances have occurred that indicate possible impairment. No such events and circumstances have occurred during the three months ended March 31, 2014 and 2013.

The Company determines the existence of such impairment by measuring the expected future cash flows (undiscounted and without interest charges) and comparing such amount to the carrying amount of the assets. An impairment loss, if one exists, is then measured as the amount by which the carrying amount of the asset exceeds the discounted estimated future cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value of such assets less costs to sell. Asset impairment charges are recorded to reduce the carrying amount of the long-lived asset that will be sold or disposed of to their estimated fair values. Charges for the asset impairment reduce the carrying amount of the long-lived assets to their estimated salvage value in connection with the decision to dispose of such assets.

## Revenue Recognition

In accordance with FASB ASC 605, the Company recognizes revenue when (i) persuasive evidence of a customer or distributor arrangement exists, (ii) a retailer, distributor or wholesaler receives the goods and acceptance occurs, (iii) the price is fixed or determinable, and (iv) the collectability of the revenue is reasonably assured. Subject to these criteria, the Company recognizes revenue from product sales when title passes to the customer based on shipping terms. The Company typically does not accept returns nor offer charge backs or rebates except for certain distributors. Revenue recorded is net of any discount, rebate or sales return.

License fee revenue is recognized on a straight-line basis over the term of the license agreement.

When the Company enters into arrangements that contain more than one deliverable, the Company allocates revenue to the separate elements under the arrangement based on their relative selling prices in accordance with FASB ASC 605-25.

## Stock-based Compensation

FASB 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 the Black-Scholes pricing model in determining the fair values of options and warrants issued as stock-based compensation and to calculate the fair value of equity instruments.

## Recently Issued and Adopted Accounting Pronouncements

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

## Quantitative and Qualitative Disclosure About Market Risk

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.

### **Off-Balance Sheet Arrangements**

We have no significant known off balance sheet arrangements.

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

We do not hold any derivative instruments and do not engage in any hedging activities.

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

##### ***(a) Evaluation of Disclosure Controls and Procedures.***

Pursuant to Rule 13a- 15(b) under the Exchange Act, the Company carried out an evaluation, with the participation of the Company's management, including the Company's Principal Executive Officer ("PEO") and Principal Financial Officer ("PFO"), of the effectiveness of the Company's disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report.

As of June 30, 2014 and based upon that evaluation, because of the identification of a control deficiency described below, the Company's PEO and PFO concluded that the Company's disclosure controls and procedures were not effective to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, 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 the Company's management, including the Company's PEO and PFO, as appropriate, to allow timely decisions regarding required disclosure.

Management determined that the existing controls were out-of-date and primarily structured to support reporting under the International Financial Reporting Standards ("IFRS"), which the Company utilized until June 30, 2013, rather than the US Generally Accepted Accounting Procedures ("US GAAP") required for SEC reporting. As a result, we have hired an accounting firm to review and update our controls to meet the requirements of the SEC rules and regulations. This project commenced in the second quarter and the resulting controls are scheduled to be adopted and fully implemented by the end of the current fiscal year.

##### ***(b) Changes in Internal Control over Financial Reporting.***

There were no changes in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## **PART II - OTHER INFORMATION**

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

From time to time, we are a party to litigation and subject to claims incident to the ordinary course of business. Future litigation may be necessary to defend ourselves and our customers by determining the scope, enforceability and validity of third party proprietary rights or to establish our proprietary rights.

On November 7, 2013, the Company received a letter from counsel to Rapid Breath Diagnostics, LLC, among others (collectively, “RBD”) alleging, among other things, the violation of certain rights purported to have been granted with respect to a purported Distributor and License Agreement. Additionally, RBD claims that the Company has violated certain rights of RBD with respect to the Company’s Ketone Check and Metron products. RBD is alleging that it has suffered \$250,000 in damages and that it has development and ownership of the market use of Ketone Check for the management of neurological diseases as well as rights to the name “Metron”. Notwithstanding the allegations set forth by RBD, the purported Distributor and License Agreement was never fully executed by the parties and thus is not in effect.

The company settled the dispute with RBD on July 23, 2014 for a one-time nominal payment.

We are currently not involved in any litigation that we believe could have a material adverse effect on our financial condition or results of operations. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our company or any of our subsidiaries, threatened against or affecting our company, our common stock, any of our subsidiaries or of our companies or our subsidiaries’ officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

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

We believe there are no changes that constitute material changes from the risk factors previously disclosed in our Annual Report on Form 10-K, filed with the SEC on March 28, 2014.

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

On June 10, 2014 the Company approved issuance of 115,000 options to purchase common shares to Directors and Officers at an exercise price of \$5.50 per common share and 60,000 options to purchase common shares to key employees at an exercise price of \$3.98 per common share. These options were issued under the 2013 Incentive Stock and Award Plan, in which an aggregate of up to 400,000 shares of the Company's common shares are reserved for issuance. All options are immediately exercisable and carry a five year expiration.

Other than the aforementioned, there were no unregistered sales of the Company's equity securities during the quarter ended June 30, 2014.

There were no unregistered sales of the Company's equity securities during the quarter ended June 30, 2014.

**Item 3. Defaults Upon Senior Securities.**

There has been no default in the payment of principal, interest, sinking or purchase fund installment, or any other material default, with respect to any indebtedness of the Company.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

There is no other information required to be disclosed under this item which was not previously disclosed.

**Item 6. Exhibits.**

- 31.1 Certification by the Principal Executive Officer of Registrant pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a) or Rule 15d-14(a)). \*
- 31.2 Certification by the Principal Financial Officer of Registrant pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a) or Rule 15d-14(a)). \*
- 32.1 Certification by the Principal Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. \*
- 32.2 Certification by the Principal Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. \*
- 101.INS XBRL Instance Document \*\*
- 101.SCH XBRL Taxonomy Extension Schema \*\*
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase \*\*
- 101.DEF XBRL Taxonomy Extension Definition Linkbase \*\*
- 101.LAB XBRL Taxonomy Extension Label Linkbase \*\*
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase \*\*

\* Filed herewith

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

### **AKERS BIOSCIENCES, INC.**

Date: August 12, 2014 By: */s/ Raymond Akers Jr. Phd*

Name: Raymond Akers Jr. Phd

Title: Executive Chairman

(Principal Executive Officer)

(Principal Financial Officer)

(Principal Accounting Officer)